

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

**AUDIT AND FINANCIAL REPORTING  
SUBCOMMITTEE MEETING**

October 23, 2017



**FILED**  
10/24/2017





# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

October 23, 2017

Members of the Audit and Financial Reporting Subcommittee:

Good morning Chairman Merritt and members of the subcommittee. I appreciate the opportunity to review the operations of the State Board of Accounts and to discuss our impending issues as we move forward.

In 2014, I reported to you that our staffing levels were at 210. Through legislative changes made to our funding structure made possible through the cooperative efforts of the Office of Management and Budget (OMB) and state and local government officials and of course the legislature, we can report that we implemented new recruitment initiatives to bring total staff to 260.

We continue to hire and train new field examiners and plan to hire an additional 31. This is the number that we have determined we need going forward to be at full staff and meet all statutory requirements of IC 5-11-1-25 and local government client related needs for debt requirements. Since January 1, 2014, we have hired 108 new field examiners; however, we have had 53 retire and 8 field examiners have left for other reasons.

I believe it is important to note that our recruitment goals are not only to eliminate the backlog of examinations, but also to have knowledgeable staff to assist Indiana governments at all levels with improving their financial reporting as more local governments move toward potentially reporting financial statements in accordance with *Generally Accepted Accounting Principles* (GAAP). We recognize that in order to increase public confidence in government officials and their financial reporting, local governments are beginning to analyze the costs and benefits of the current regulatory reporting and other possible basis' for financial reporting. We are preparing to be able to meet the future needs for services as well as the current.

We do recognize that the elimination of the past due examinations is extremely important. We recognize that local governments need their audits and examinations performed timely for the information to be relevant and useful. However, we can't overlook the need to perform a quality audit or examination. With the limited resources that we have had, we made a decision as a Board never to sacrifice quality for timeliness.

However, the timeliness of examinations is extremely important and we are continuing to look into new avenues that could enhance our ability to perform our audits and examinations more timely and make them more relevant and at the same time preserve the quality. We are currently working on a joint project with the Office of management and Budget (OMB), Indiana Office of Technology (IOT) and the Management Performance Hub (MPH) to help collect relevant examination data in a real-time environment through the Gateway Portal to help achieve this goal.

We have utilized the risk based legislation in IC 5-11-1-25 to allow the frequency of examinations to depend on the auditee's needs and risk. We have collected information from units of government on the risk factors approved by the Audit Committee to better assess the needs of local governments and respond with an examination that provides the level of assurance needed for the governmental unit. This limits over auditing and helps minimize the overall audit cost to the local government and to the state.

Indiana Code 5-11-1-9 provides that State Board of Accounts shall examine all accounts and financial affairs of every public office and officer, state office, state institution and entity. This includes not-for-profits that receive government funding. Due to limits on resources, the State Board of Accounts has historically allowed the not-for-profits and Housing Authorities to engage independent public accountants (IPAs) as allowed under IC 5-11-1-7(b). These IPAs are subject to the direction of the state examiner while performing examinations under IC 5-11.

Recently our monitoring found an IPA, to whom audit contracts have been let under IC 5-11, to have a failed peer review. The contracts were for the audits of Housing Authorities. This IPA is licensed in Illinois and has joined the peer review program conducted by the Illinois CPA Society. Under the peer review program the IPA was to complete a corrective action plan and is significantly beyond the date when this corrective action was to be completed.

This is the first instance that we are aware of where an IPA performing audits under IC 5-11 has had a failed peer review. We have contacted Indiana's federal cognizant agency for guidance and will provide notification to HUD, the main federal funding source for Housing Authorities.

As the regulatory authority for IPAs performing audits under IC 5-11, we are looking at additional steps to control the quality of IPAs and sanctions when a peer review is failed. This includes requiring the IPA to be licensed in Indiana, our acceptance of corrective actions, and potential statutory sanctions for failed peer reviews.

The last item to report before moving into the statutory duties of the Audit Committee is to notify you that the State Board of Accounts has requested that Indiana Code 5-24 on digital signatures be repealed. Administrative rule, 20 IAC 3, adopted to support this code will expire December 31, 2017. Technology has changed significantly in this area to make this statute and the administrative rule antiquated and unusable, and more effective alternatives exist through the Uniform Electronic Transactions Act.

The Audit and Financial Reporting Subcommittee (Audit Committee) of the legislative council was established to assure the independence of the State Board of Accounts. In carrying out this objective, the Audit Committee is to perform the enumerated tasks stated in Indiana Code 2-5-1.1-6.3(c). The following information is provided for the subcommittee's work under this statute.

- 1. Review and monitor the independence and objectivity of the state board of accounts and the effectiveness of the examination process, taking into consideration relevant professional and regulatory requirements.**

Documentation has been provided separately to the subcommittee through Legislative Services Agency (LSA) to evidence the independence of the state examiner and the State Board of Accounts. This includes structural independence, independence in fact and appearance.

We believe P.L. 104-2014 is sufficient to establish the State Board of Accounts' compliance with the *Generally Accepted Government Auditing Standards* (the "Yellow Book") by the Comptroller General of the United States for structural independence. The Yellow Book also provides a framework for conducting high quality audits with competence, integrity, objectivity, and independence. The State Board of Accounts established its policies to ensure independence in fact and appearance using this framework to evaluate and mitigate potential threats to independence.

**2. Evaluate the findings and recommendations of any peer review of the state board of accounts that is required by recognized government auditing standards.**

The State Board of Accounts' last external quality control review report was issued October 23, 2015, and was provided to the Audit Committee at our last meeting on September 13, 2016. The State Board of Accounts received a rating of pass, indicating the highest degree of compliance with auditing standards. The latest peer review report is posted on the Board's website for public inspection and has been included herein.

The next external peer review for the period October 1, 2017 through September 30, 2018, is scheduled to be completed October 19, 2018.

**3. Receive and review reports of examinations submitted under IC 5-11-5-1 or another law to monitor the integrity of the financial reporting process and the effectiveness of the state board of accounts in evaluating the internal accounting controls of audited entities.**

The State Board of Accounts has filed all reports of examination with (1) the officer or person examined, (2) the auditing department of the municipality examined, if applicable, and (3) the Legislative Services Agency as required by IC 5-11-5-1(a). The board also posts all of its reports of examination on its public website. Summary information from reports filed for the State, universities, and other entities is provided in later sections of this report.

We have compiled a final report of the results of the internal audits and reviews of internal control systems performed and reported by the Bureau of Motor Vehicles, Office of the Secretary of Family and Social Services, and the Department of State Revenue in accordance with Indiana Code 5-11-1-28 for State Fiscal Year 2017 (July 1, 2016 to June 30, 2017). This report was compiled using information provided by the respective agencies. We did not audit the information, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided. The final report was submitted to the officials named in Indiana Code 5-11-1-28(b)(2) and this committee.

**4. Monitor the actions of the examined entities to follow up on reported findings to assure corrective action is taken.**

The State Board of Accounts appreciates the efforts of the Audit Committee and the full Indiana General Assembly in passing P.L. 176-2017 to provide for corrective action plans and increased monitoring for same and substantially similar audit findings that are repeated from a prior examination report. The Board has established policies and procedures to implement the increased monitoring and guidelines required by Indiana Code 5-11-5-1.5(d) for establishing corrective action plans. Training has been provided on the policies, procedures, and guidelines to state officials, local officials and State Board of Accounts staff.

For those corrective action plans that are not implemented and repeat audit findings that are not corrected within six months of establishing the corrective action plan, a memorandum will be prepared and provided to the Audit Committee for its determination of further action to be taken.

A summary of audit findings of the State of Indiana and the state universities is included in this report. The summary indicates those findings that are the same or substantially similar to a prior year finding.

**5. Review the policy on the engagement of the state board of accounts, its field examiners, and private examiners to supply nonaudit services, taking into account relevant ethical guidance regarding the provision of nonaudit services by the state board of accounts.**

The State Board of Accounts adopted and continues to follow the "Provision of Nonaudit Services to Audited Entities" as set forth in the *Generally Accepted Government Auditing Standards*.

This past year, the Board has increased its outreach to local government auditees by hosting regional meetings of bookkeeping and accounting staff of local governments at single day meetings around the state for a variety of unit types. These meetings are in addition to the annual conferences the agency has traditionally hosted with the assistance of the local government associations. The regional meetings allow for more individualized training at a lower cost to the local governments. Additionally, quarterly information in the form of Bulletins has now been expanded to not-for-profit and charter school auditees.

The State Board of Accounts will continue to search for and implement new ways to assist Indiana governments using our knowledge and experience. However, we will only do so in a manner that maintains the independence of the Board and complies with the *Generally Accepted Government Auditing Standards*.

**6. Provide guidance to the state board of accounts on any accounting, examination, or financial reporting matter requested by the state board of accounts.**

The following are areas in which the State Board of Accounts seeks guidance or clarification from the Audit Committee. Detailed information on each of these topics is provided by topic later within this report with suggested resolutions including proposed amendments to statute where applicable.

***Lack of Accountability and Transparency of Proceeds from the Sale of Hospitals Once Transferred to a Foundation***

There are two occurrences of this situation that cause us to seek the Audit Committee's guidance.

Floyd County sold their hospital for \$161,000,000 in 2016 and has donated \$70,000,000 of the proceeds to a community foundation as an endowment as allowed per statute. The county intends to add another \$51,000,000 to this endowment. There is no requirement in statute for an audit of the endowment. There is no statutory requirement for public reporting of the endowment other than when donations are made or if the disbursements from the endowment in a given year exceeds 50% of the total foundations expenditures.

Porter County sold their hospital in 2016 and transferred \$157,000,000 to a nonprofit institution statutorily allowed for investments. There is a provision for audit in Indiana Code but no public reporting requirement.

***Delinquent Property Tax Penalty Application of 5% and 10%***

Indiana Code 6-1.1-37-10 provides that if an installment of property tax is not completely paid on or before the due date a penalty is added in the year of initial delinquency. If the full installment is paid within 30 days of the due date a penalty of 5% attaches. If the full installment is not paid within 30 days of the due date a 10% penalty attaches. The Indiana Code does not provide for a consistent order of application of payments received. Therefore, this has been left up to county policy or tax vendor system defaults. If a citizen pays the installment amount without the penalty amount within the 30 day window, most counties will apply the payment to the penalty amount first leaving part of the installment unpaid. This results in the 10% penalty attachment after 30 days. We have received many taxpayer concerns that the 10% application is unfair, especially when the order application of tax payments is locally determined.

***Audit Charges and Findings Related to Local Official Compensation***

Local officials' perceptions vary as to what is included in compensation, when the compensation of elected officers may be adjusted, and whether elected officers serving on the same board may be compensated differently. Many changes have occurred in recent years regarding common types of compensation and benefits without the same updating of applicable statutes. Update and clarification within Indiana Code of issues found in recent audits regarding compensation would provide a consistent framework for local officials; enable State Board of

Accounts to provide guidance based on clear authority; and potentially curtail the number of findings subject to establishing corrective action plans in accordance with P.L. 176-2017. The significant areas of concern are as follows:

- Compensation and Employee Benefits
- Reduced Compensation
- Increased Compensation
- Sheriff Compensation
- Board Member Compensation

#### ***Accountability and Transparency of Economic Development Funds***

Indiana Code 6-3.6-10-2(7) allows local units to use revenue allocated for economic development purposes for "contract payments to a nonprofit corporation whose primary purpose is to assist government in planning and implementing economic development projects." Under the authority of this statute, local units commonly enter into a contract with a nonprofit economic development corporation (EDC) to accomplish their economic development goals.

A nonprofit must meet the criteria under IC 5-11-1-9 in order to be subject to audit by State Board of Accounts. Grant funds from a local unit to a nonprofit would meet the criteria. Contracts set up as a fee-for-service are treated as a vendor contract and would not meet that criteria.

At least \$51 million in governmental funds were provided EDCs in 2016. EDC contracts are commonly let to appear as fee-for-service.

This information is provided to the audit committee for its consideration on whether the fee-for-service arrangement meets the accountability and transparency goals of the Indiana legislature in regard to funds spent for economic development purposes.

**7. At least annually, report to the legislative council on how the audit committee has discharged its duties and met its responsibilities.**

Thank you for your time, your thoughtful review of the operations of the State Board of Accounts, and your continued support.

Respectfully yours,

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
State .....	3-93
Universities.....	95-102
<b>Other Reports</b>	
Summary of Reports Filed.....	103
Investigations .....	104
Schedule of Charge Reports in Excess of \$10,000 .....	104
External Peer Review Report .....	105
<b>Requests For Guidance</b>	
Hospital Sales.....	107-109
Property Tax Penalties .....	111-113
Compensation .....	115-134
Economic Development Corporations.....	135-137



***Update of FY 2016 CAFR Audit***

- The CAFR Opinion was provided on December 21, 2016.
- The Opinion on the State CAFR was unmodified, indicating that the State's financial statements presented fairly, in all material respects, the financial position of the State.
- The Auditor of State did receive the GFOA certificate for excellence in financial reporting for the FY 2016 CAFR.
- The FY 16 CAFR audit took a total of 4,591 hours to complete.
- We reported two internal control findings related to the financial statements. Both findings were repeat finding from FY 2014 and 2015. Those findings, and the corrective action plans prepared by the State to address the findings, are including in your handout as findings 2016-001 and 2016-002.

**Summary of Findings**

Finding No.	Title
2016-001	Reconciliations Between KidTraks and ENCOMPASS
2016-002	Internal Controls Over ENCOMPASS Accounting System

***Update of FY 2016 Supplemental Audit of Federal Awards***

- We provided our opinion on the supplemental audit of federal awards on March 23, 2017.
- The audit of the federal awards took 11,073 hours to complete.
- We audited 20 major programs for FY 2016 supplemental audit of Federal Awards

***Federal Programs Audited in FY 2016***

<b><i>Major Programs Audited</i></b>			
CFDA #	Title	Agencies	Finding Reported
10.551, 10.561	SNAP Cluster	Family and Social Services Administration	Yes
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Indiana State Department of Health	Yes
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Adjutant General's Office	No
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Lieutenant Governor's Office	Yes
17.258, 17.259, 17.278	WIA/WIOA Cluster	Department of Workforce Development	Yes
20.205	Highway Planning and Construction	Department of Transportation	Yes
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	Department of Transportation	No
84.010	Title I Grants to Local Educational Agencies	Department of Education	Yes
84.027, 84.173	Special Education Cluster (IDEA)	Department of Education	Yes
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	Family and Social Services Administration	Yes
84.367	Improving Teacher Quality Grants to States	Department of Education	Yes
84.377, 84.388	School Improvement Grants	Department of Education	Yes
93.558	Temporary Assistance to Needy Families (TANF)	Family and Social Services Administration	Yes
93.563	Child Support Enforcement	Department of Child Services	Yes
93.659	Adoption Assistance	Department of Child Services	No
93.667	Social Services Block Grant	Department of Child Services	No
93.767	Children's Health Insurance Program	Family and Social Services Administration	No
93.778	Medical Assistance Program	Family and Social Services Administration	No
93.959	Block Grant for Prevention and Treatment of Substance Abuse	Family and Social Services Administration	Yes
96.001	Social Security – Disability Insurance	Family and Social Services Administration	No

We reported 29 federal findings in 13 of the 20 major programs audited in the FY 2016 Supplemental Audit of Federal Awards. Those findings, and the corrective action plans prepared by the State to address the findings, are included in your handout. We have summarized the findings by type and by major program below:

<b>Findings by Type</b>	
<b>Internal Control, Non Compliance, Qualified</b> (5 Related to Findings Reported in Fiscal Year 2015)	9
<b>Internal Control, Scope Limitation, Qualified</b> (1 Related to Finding Reported in Fiscal Year 2015)	3
<b>Internal Control, Non Compliance, Unmodified</b> (7 Related to Findings Reported in Fiscal Year 2015)	10
<b>Internal Control Only</b> (1 Related to Findings Reported in Fiscal Year 2015)	7
<b>Total Section III Major Program Findings</b>	<b>29</b>

#### **DETAIL OF FINDINGS BY MAJOR PROGRAM**

	17.259 WIA/WIOA Youth Activities						
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-003	Period of Performance				X		
	14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii						
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-004	Subrecipient Monitoring	X			X		
	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children						
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-005	Subrecipient Monitoring				X		
	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - Food Instrument and Cash-Value Voucher Disposition						
2016-006	Disposition						X

20.205 Highway Planning and Construction								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-007	Special Tests and Provisions - Wage Rate Requirements	X	X					
2016-008	Special Tests and Provisions - Quality Assurance	X			X			
84.010 Title I Grants to Local Educational Agencies 84.027, 84.173 Special Education Cluster 84.367 Improving Teacher Quality State Grants 84.377 School Improvement Grants								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-009	Cash Management	X			X			
84.010 Title I Grants to Local Educational Agencies 84.367 Improving Teacher Quality State Grants								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-010	Subrecipient Monitoring	X			X			
84.010 Title I Grants to Local Educational Agencies								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-011	Period of Performance						X	
84.377 School Improvement Grants								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-012	Eligibility, Earmarking, Suspension and Debarment	X					X	
2016-013	Subrecipient Monitoring	X			X			

	84.027, 84.173 Special Education Cluster							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-014	Period of Performance							X
2016-015	Subrecipient Monitoring					X		
	Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter							
2016-016	Schools							X
2016-017	Level of Effort and Earmarking							X
	93.563 Child Support Enforcement							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-018	Cash Management	X				X		
2016-019	Subrecipient Monitoring	X	X					
	93.558, 93.714 TANF Cluster							
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified	
2016-020	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility		X					
2016-021	Period of Performance		X					
	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility	X	X					
2016-022	Special Tests and Provision - Child Support Non-Cooperation		X					

84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015		Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-024	Earmarking	X			X			
2016-025	Period of Performance	X		X				
2016-026	Eligibility	X				X		
2016-027	Special Tests and Provision - Completion of IPEs	X		X				
2016-028	Procurement and Suspension and Debarment			X				
93.959 Block Grants for Prevention and Treatment of Substance Abuse								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015		Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-029	Matching, Level of Effort, Earmarking							X
10.551 Supplemental Nutrition Assistance Program								
Finding #	Requirement	Related Finding Reported in Fiscal Year 2015		Internal Control Non Compliance Qualified	Internal Control Scope Limitation Qualified	Internal Control Non Compliance UnModified	Non Compliance UnModified	Internal Control Only UnModified
2016-030	Reporting				X			
2016-031	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Test and Provision - ADP System for SNAP				X			

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section II - Financial Statement Findings**

**FINDING 2016-001 - RECONCILIATIONS BETWEEN KIDTRAKS AND ENCOMPASS**

The Indiana Department of Child Services (DCS) maintained a subsidiary system, KidTraks. DCS did not perform a comprehensive reconciliation between expenses recorded in KidTraks and expenses posted to the State's accounting system, ENCOMPASS. Management of DCS had not designed and implemented adequate controls to sufficiently compensate for this deficiency.

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed DCS at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Controls over the receiving, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-002 - INTERNAL CONTROLS OVER ENCOMPASS ACCOUNTING SYSTEM**

There were internal control and security issues in the State's ENCOMPASS accounting system. The issues included deficiencies in the following areas:

- approval processes
- segregation of duties
- password controls
- system access
- system monitoring controls

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the State at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected, and corrected, material misstatements in a timely manner.

It is critical that an agency approver, whether it be approval of a deposit, payment, journal entry or asset entry, be cognizant of the various funds, accounts, departments and programs of his/her agency in order that incorrect entries be returned to the entry staff for correction prior to approval. It is not the responsibility of the AOS staff to be aware of all operations within an agency and how they should be recorded. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 2.4)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Segregation of duties and safeguarding controls over cash, all other assets, and all forms of information processing are necessary for proper internal control.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.2)

Reporting of user access rights to system functional capabilities and information, as well as reporting of security definitions such as configuration parameters, workflow approval hierarchy, thresholds, and override capabilities must be available to, and easily understood by, management and State Board of Accounts' Field Examiners during the course of a regularly scheduled audit. These security definitions and user access rights must enforce adequate segregation of duties for the accounting system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.4)

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2016-003 - PERIOD OF PERFORMANCE**

Federal Agency: U.S. Department of Labor  
Federal Program: WIA/WIOA Youth Activities

CFDA Number: 17.259

Federal Award Numbers and Years (or Other Identifying Numbers): AA-26778-15-55-A-18

*Condition*

Management of the Department of Workforce Development (DWD) had not established an effective internal control system related to the grant agreement and the Period of Performance compliance requirement. Controls in place were not effective to ensure that expenditures were paid from a grant year that was open at the time that the underlying obligation occurred.

Period of performance testing included conducting an original sample of twenty-five adjustment transactions. Four of these transactions were posted to a grant year that was not open at the time that the underlying obligation occurred. Upon further testing, we identified all four of the transactions were part of a single journal entry, whereas all transactions within that journal entry were obligated prior to the start of the grant year. Expenditures that are posted outside of the period of performance were considered questioned costs. The total of known questioned costs was \$64,857.51.

*Context*

In the original sample of twenty-five adjustment transactions, each of the four errors found were contained in a single journal entry. Thus, the issue was determined to be an isolated instance.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 215.28 states: "Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency."

*Cause*

Management's system of internal controls was not effective in preventing, or detecting, and correcting, noncompliance.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to DWD.

*Questioned Costs*

The total of known questioned costs was \$64,857.51.

*Recommendation*

We recommended that DWD's management establish effective controls related to the grant agreement and compliance requirement listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***Finding 2016-004 - SUBRECIPIENT MONITORING***

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Community Development Block Grant/State's program  
and Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Numbers and Years (or Other Identifying Numbers): B-06-DC-18-0001, B-07-DC-18-0001,  
B-08-DC-18-0001, B-08-DF-18-0001,  
B-08-DI-18-0001, B-09-DC-18-0001,  
B-10-DC-18-0001, B-11-DC-18-0001,  
B-12-DC-18-0001, B-13-DC-18-0001,  
B-14-DC-18-0001, B-15-DC-18-0001,  
B-08-DI-18-0001

*Repeat Finding*

A similar finding was noted in the prior Fiscal Year 2015 audit as Finding 2015-007.

*Condition*

Management of the Office of Community and Rural Affairs (OCRA) had not established an effective internal control system related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure that all subrecipients received an audit if the requirements of OMB Circular A-133 or 2 CFR 200, Subpart F, were met. Testing revealed that OCRA had not monitored all subrecipients for this requirement.

*Context*

Subrecipients were only monitored by OCRA for compliance with OMB Circular A-133 or 2 CFR 200, Subpart F, if their grant awards had been closed during the fiscal year. For subrecipients that had awards ongoing, OCRA had not monitored subrecipients for compliance with the audit requirement. OCRA maintained a spreadsheet of subrecipients whose grant was closed. When the grant was closed, the spreadsheet was to be updated as the subrecipients were monitored for compliance with the audit requirement. Our review of the spreadsheet showed that one person was responsible for maintaining the spreadsheet.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-133, Subpart D, section .400 states in part:

" . . . (d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes: . . .

(4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. . . ."

2 CFR 200.331 states in part:

"All pass-through entities must: . . .

(f) Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements. . . ."

*Cause*

Management of OCRA had not established an effective internal control system related to subrecipient monitoring of audits of federal awards that would have prevented, or detected and corrected material noncompliance. In addition, OCRA had not monitored subrecipient audits throughout the term of the grant award, and instead only monitored for audits at the time of closeout of the project.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to OCRA.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Recommendation*

We recommended that OCRA's management establish controls, related to the grant agreement and subrecipient monitoring and to implement procedures to properly monitor subrecipients for the audit requirements as indicated in the criteria above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-005 - SUBRECIPIENT MONITORING**

Federal Agency: U.S. Department of Agriculture

Federal Program: Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA Number: 10.557

Federal Award Numbers and Years (or Other Identifying Numbers): 61900, 2IN700002, 2IN700002 #5,  
2IN700012, 2IN700012-00,  
2IN810001-8 & ESTIMATE

*Condition*

Management of the Indiana State Department of Health (ISDH) had not established an effective internal control system related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure that all subrecipients received an audit if the requirements of the OMB Circular A-133 or 2 CFR 200, Subpart F, were met. Testing revealed that ISDH had not monitored all subrecipients for this requirement.

*Context*

ISDH had not evaluated all subrecipients' need for a Federal audit based on all Federal funds expended, but only on funds that were passed through by ISDH. ISDH provided a list of all subrecipients; of which, 15 were identified to reflect those they expected to qualify for an audit. No further follow up was noted.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-133, Subpart D, section .400 states in part:

" . . . (d) **Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes: . . . ."

(4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. . . ."

2 CFR 200.331 states in part:

"All pass-through entities must: . . . ."

(f) Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements. . . ."

*Cause*

Management of ISDH had not established an effective internal control system related to subrecipient monitoring of audits of federal awards that would have prevented, or detected and corrected material noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to ISDH.

*Recommendation*

We recommended that ISDH's management establish controls, related to the grant agreement and subrecipient monitoring, and to implement procedures to properly monitor subrecipients for the audit requirements as indicated in the criteria above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2016-006 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND SPECIAL TESTS AND PROVISIONS - FOOD INSTRUMENT AND CASH-VALUE VOUCHER DISPOSITION**

Federal Agency: U.S. Department of Agriculture

Federal Program: Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA Number: 10.557

Federal Award Numbers and Years (or Other Identifying Numbers): 61900, 2IN700002, 2IN700002 #5,  
2IN700012, 2IN700012-00,  
2IN810001-8 & ESTIMATE

*Condition*

Management of the Indiana State Department of Health (ISDH) had not established an effective internal control system related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - Food Instrument and Cash-Value Voucher Disposition.

*Context*

ISDH relied on their contracted service organization to ensure these requirements were met. ISDH contracted with one service organization to issue Food Instruments (FI) and/or Cash Value Vouchers (CVV) and contracted with a different service organization to issue Electronic Benefits Transfer (EBT cards). These services organization submitted to ISDH a monthly summary report that showed the total FI/CVV/EBT issued, redeemed, and expired/unredeemed benefits for that month. ISDH had not received detailed reports to determine the ultimate disposition of all FI/CVV/EBTs within 120 days of the first valid date for participant use, nor did it have controls in place to ensure the service providers were monitoring this requirement.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

Management of ISDH had not established a system of internal controls related to Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - Food Instrument and Cash-Value Voucher Disposition compliance requirements, which would have prevented, or detected and corrected material noncompliance. ISDH relied on the contracted service organization to ensure that these requirements were met.

*Effect*

The failure to establish an effective internal control system placed ISDH at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended that ISDH's management establish controls related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-007 - SPECIAL TESTS AND PROVISIONS - WAGE RATE REQUIREMENTS**

Federal Agency: U.S. Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): Estimated \$, N4510.705, N4510.770, N4510.774, RTA-000-1661, 4510.802, RT14003, RT14009, various

*Repeat Finding*

A similar finding was noted in the prior Fiscal Year 2015 audit as Finding 2015-011.

*Condition*

Management of the Indiana Department of Transportation (INDOT) had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement. Additionally, certified payrolls were not submitted and received by INDOT timely.

*Context*

We selected a sample of sixty contractors and subcontractors that were active during the audit period and requested INDOT to provide copies of certified payrolls for the audit period. All certified payrolls were sent to and maintained by the project engineers until the project was completed and were then sent

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

to the INDOT District office to be held for audit. Due to the number of errors in the first eleven items of the sample, we did not test the remaining 49 items. Five of eleven of the contractors' and subcontractors' certified payrolls in the sample were provided by INDOT, but had not included the dates the certified payrolls were received by INDOT. Thus, we could not verify that they were submitted weekly. Of the remaining six, four had not submitted weekly. Submission ranged between 8 and 20 days after the end of the pay period.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 5.5(3)(ii)(A)states in part:

"The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the U.S. Department of Transportation if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the U.S. Department of Transportation. . . ."

*Cause*

Management of INDOT had not developed a system of internal controls over the Special Tests and Provisions - Wage Rate Requirements compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to INDOT.

*Recommendation*

We recommended that INDOT's management establish controls related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement to ensure the certified payrolls are received weekly and are readily available for audit.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-008 - SPECIAL TESTS AND PROVISIONS - QUALITY ASSURANCE PROGRAM***

Federal Agency: U.S. Department of Transportation

Federal Program: Highway Planning and Construction

CFDA Number: 20.205

Federal Award Numbers and Years (or Other Identifying Numbers): Estimated \$, N4510.705,  
N4510.770, N4510.774,  
RTA-000-1661, 4510.802,  
RT14003, RT14009, various

*Repeat Finding*

A similar finding was noted in the prior Fiscal Year 2015 audit as Finding 2015-010.

*Condition*

Management of the Indiana Department of Transportation (INDOT) had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Quality Assurance Program compliance requirement. Two instances were noted in which the individual tester, that tests materials used in the construction of roadway, was not qualified on the date that the test was performed.

*Context*

We selected a sample of 40 individual tests to verify that the testing of roadway construction material was performed by qualified testing personnel. Two instances were noted in which the individual tester was not qualified on the date that the test was performed. One individual did not have any record of being qualified for the test performed and the second tester's qualifications expired 17 months before the test date and was not requalified until 2 months after the test date.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

23 CFR 637.205(d) states: "*Verification sampling and testing*. The verification sampling and testing are to be performed by qualified testing personnel employed by the STD or its designated agent, excluding the contractor and vendor."

*Cause*

Management of INDOT had not developed a system of internal controls over the Special Tests and Provisions - Quality Assurance Program compliance requirement, which would have prevented, or detected and corrected, material noncompliance

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to INDOT.

*Recommendation*

We recommended that INDOT's management establish controls related to the grant agreement and Special Tests and Provisions - Quality Assurance Program compliance requirement to ensure all testing is performed by qualified testing personnel.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-009 - CASH MANAGEMENT**

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, Special Education Cluster (IDEA), Improving Teacher Quality State Grants, School Improvement Grants

CFDA Numbers: 84.010, 84.027, 84.173, 84.367, 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): S010A110014, S010A120014, S010A130014, S010A140014, S010A150014, H027A110084, H027A130135, H027A140084, H027A150084, H173A110104, H173A120104, H173A130104, H173A140104, H173A150104, S367A130013, S367A140013, S367A150013, S377A120015, S377A130015

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-026.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement. IDOE had not monitored their subrecipients to ensure the requirements of the Cash Management compliance requirement were met.

*Context*

Policies and procedures were not in place to monitor subrecipients for the Cash Management compliance requirement; therefore, no monitoring was performed to ensure subrecipients minimized the time elapsing between the transfer of federal funds from IDOE and the disbursement of funds by the subrecipient for program purposes.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.37(a) states:

"States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

- (1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- (2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- (3) Ensure that a provision for compliance with §80.42 is placed in every cost reimbursement subgrant; and

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(4) Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies."

34 CFR 80.26(b) states in part:

*"Subgrantees.* State or local governments, as those terms are defined for purposes of the Single Audit Act Amendments of 1996, that provide Federal awards to a subgrantee, which expends \$300,000 or more (or other amount as specified by OMB) in Federal awards in a fiscal year, shall: . . .

(2) Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act, OMB Circular A-133, or through other means (e.g., program reviews) if the subgrantee has not had such an audit; . . ."

2 CFR 200.305 states in part:

". . . (b) For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. . . ."

2 CFR 200.331 states in part:

"All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. . . .

(2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.

(3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports; . . .

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Cash Management compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to IDOE.

*Recommendation*

We recommended that IDOE's management establish controls related to the grant agreement and Cash Management compliance requirement to ensure all subrecipients are properly monitored for compliance with the requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-010 - SUBRECIPIENT MONITORING**

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants

CFDA Numbers: 84.010; 84.367

Federal Award Numbers and Years (or Other Identifying Numbers): S010A110014; S010A120014;  
S010A130014; S010A140014;  
S010A150014; S367A130013;  
S367A140013; S367A150013

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-028.

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system, which would have included segregation of duties, in order to ensure compliance with requirements related to the grant agreement and the Subrecipient Monitoring compliance requirements. Additionally, IDOE could not provide for audit supporting documentation that subrecipients were provided the proper federal award information at the time of the subaward or to ensure the subrecipients received an audit if the requirements of 2 CFR 200, Subpart F were met.

*Context*

*Award Identification* - We selected a sample of 120 local educational agencies (LEAs) which received Title I or Improving Teacher Quality funding during the 2013-2014, 2014-2015, or 2015-2016 school years. All sampled LEAs that received Title I funding, in any of the three aforementioned school years, were not provided the proper federal award information at the time of the subaward. Additionally, all LEAs which received Improving Teacher Quality funding, during the 2013-2014 and 2014-2015 school years, were not provided the proper federal award information at the time of the subaward.

*Audit Reports* - IDOE relied on the Indiana State Board of Accounts to provide them with an audit report of their subrecipients. IDOE had not maintained a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.210 states in part:

"A Federal award must include the following information:

- (a) *General Federal Award Information.* The Federal awarding agency must include the following general Federal award information in each Federal award:
  - (1) Recipient name (which must match registered name in DUNS);
  - (2) Recipient's DUNS number . . .;
  - (3) Unique Federal Award Identification Number (FAIN);
  - (4) Federal Award Date . . .;
  - (5) Period of Performance Start and End Date;
  - (6) Amount of Federal Funds Obligated by this action;
  - (7) Total Amount of Federal Funds Obligated;
  - (8) Total Amount of the Federal Award;
  - (9) Budget Approved by the Federal Awarding Agency;
  - (10) Total Approved Cost Sharing or Matching, where applicable;
  - (11) Federal award project description (to comply with statutory requirements . . . );
  - (12) Name of Federal awarding agency and contact information for awarding official;
  - (13) CFDA Number and Name;
  - (14) Identification of whether the award is R&D; and
  - (15) Indirect cost rate for the Federal award . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.331 states in part:

"All pass-through entities must: . . .

(f) Verify that every subrecipient is audited as required by Subpart F --Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit Requirements. . . ."

OMB Circular A-133, Subpart D, section .400(d) states in part:

"A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award. . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Subrecipient Monitoring compliance requirement, which would have prevented, or detected and corrected, material non-compliance.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to IDOE.

*Recommendation*

We recommended IDOE's management establish internal controls, policies, and procedures related to the grant agreement and Subrecipient Monitoring compliance requirement to ensure the compliance is met.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-011 - PERIOD OF PERFORMANCE***

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): S010A110014, S010A120014,  
S010A130014, S010A140014,  
S010A150014

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the Period of Performance compliance requirement. Controls designed and implemented to detect and correct noncompliance with the Period of Performance requirements were ineffective in ensuring that expenditures with Title I funds were made in the Period of Performance.

*Context*

Nine payments totaling \$3,909 were made from the 2011 grant project to one vendor for services provided during fiscal year 2016. Although these payments were posted to the 2011 grant year records as a Federal expenditure, the funds were not drawn down from the Federal Government. Subsequent to the audit period, four of the nine payments which totaled \$1,963 were transferred from the 2011 project to the 2015 project. The remaining five payments totaling \$1,946 were still posted to the 2011 project.

During fiscal year 2015, twelve payments totaling \$4,113 were made to the same vendor and charged to the 2011 project. None of the twelve payments were transferred to the appropriate project year records or drawn down from the Federal Government prior to the end of the period of performance. Therefore, these payments can no longer be drawn down from the Federal Government. As a result, these expenditures were incorrectly included in the Schedule of Expenditures of Federal Awards (SEFA). Since funds were not drawn down incorrectly for each issue discovered, we did not take exception to the incorrect postings. However, due to these incorrect postings, controls in place were not effective in preventing, or detecting and correcting possible noncompliance.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Period of Performance compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to establish an effective internal control system placed IDOE at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended IDOE's management establish controls related to the grant agreement and Period of Performance compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-012 - ELIGIBILITY, EARMARKING, SUSPENSION AND DEBARMENT**

Federal Agency: U.S. Department of Education

Federal Program: School Improvement Grants

CFDA Number: 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): S377A120015, S377A130015

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-029 and 2015-030.

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the following compliance requirements: Eligibility, Earmarking, and Suspension and Debarment.

*Context*

School Improvement Grants (SIG) participants were awarded federal funding on a three or five year model. Schools were required to submit a new application in the first year of program participation and a renewal application in subsequent years of program participation. There were no documented segregations of duties over the new or renewal application process. One person was responsible for ensuring compliance with each requirement. Eligibility, Earmarking, and Suspension and Debarment compliance requirements were performed by IDOE during the new and renewal application process. Therefore, segregations of duties over the identified compliance requirements were not in place.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

Management of IDOE had not developed a system of internal controls over the compliance requirement listed above, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system placed IDOE at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended IDOE's management establish controls related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-013 - SUBRECIPIENT MONITORING**

Federal Agency: U.S. Department of Education

Federal Program: School Improvement Grants

CFDA Number: 84.377

Federal Award Numbers and Years (or Other Identifying Numbers): S377A120015, S377A130015

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-031.

*Condition*

Management of the Indiana Department of Education (IDOE) had not designed and implemented an effective internal control system related to the grant agreement and the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure that all subrecipients received an audit if the requirements of OMB Circular A-133 or 2 CFR 200, Subpart F, were met. Not all subrecipients were monitored for audits during the award period.

*Context*

IDOE relied on the Indiana State Board of Accounts to provide them with an audit report of their subrecipients. IDOE had not maintained a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

OMB Circular A-133, Subpart D, section .400 states in part:

"A pass-through entity shall perform the following for the Federal awards it makes: . . .

(4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.  
. . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Subrecipient Monitoring compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to IDOE.

*Recommendation*

We recommended IDOE's management establish internal controls, policies, and procedures related to the grant agreement and Subrecipient Monitoring compliance requirement to ensure compliance.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-014 - PERIOD OF PERFORMANCE**

Federal Agency: U.S. Department of Education

Federal Program: Special Education Cluster (IDEA)

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): H027A110104, H027A130084,  
H027A140084, H027A150084,  
H173A110104, H173A120104,  
H173A130104, H173A140104,  
H173A150104

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the Period of Performance compliance requirement. Controls were not in place to ensure expenditures were properly posted to the appropriate grant award.

*Context*

Our original testing of 25 transactions identified 5 transactions totaling \$2,110 that were posted as a Federal expenditure to the 2013 grant year records. These transactions were obligated after the end of the period of performance of the 2013 grant year. Due to the errors, additional testing was performed. In the additional test of 20 transactions, there were 10 transactions totaling \$151,123 that were posted to the grant year records outside the period of performance. Upon further inquiry, it was discovered that although these transactions were posted to the 2013 grant year records as a Federal expenditure, the funds were not drawn down from the Federal Government. As a result, these expenditures were incorrectly included in the Schedule of Expenditures of Federal Awards (SEFA). We did not take exception to these incorrect postings; however, controls in place were not effective in preventing, or detecting and correcting, possible noncompliance.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Period of Performance compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to establish an effective internal control system placed IDOE at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended IDOE's management establish controls related to the grant agreement and Period of Performance compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-015 - SUBRECIPIENT MONITORING**

Federal Agency: U.S. Department of Education

Federal Program: Special Education Cluster (IDEA)

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): H027A110084, H027A130084,  
H027A140084, H027A150084,  
H173A110104, H173A120104,  
H173A130104, H173A140104,  
H173A150104

*Condition*

Management of the Indiana Department of Education (IDOE) had not designed and implemented an effective internal control system over the Subrecipient Monitoring compliance requirement. Controls were not in place to ensure that all subrecipients received the proper monitoring. Additionally, our testing revealed that not all subrecipients were monitored to ensure compliance with obtaining an audit if the requirements of OMB Circular A-133 or 2 CFR 200, Subpart F, were met during the audit period.

*Context*

Award Identification - Award letter templates for the sub award notifications were prepared by the Part B Grants Supervisor each year. Another employee of the Office of Special Education completed the template and sent the letters out to the LEAs. After the pertinent information was entered into the award letter by an employee of the Office of Special Education, there was no other review, oversight, or approval.

During Award Monitoring - Fiscal monitoring tracking spreadsheet was maintained by the Part B Grants Supervisor each year; there was no other review, oversight, or approval.

Audit Reports - During the audit period, there was no tracking of the determination of whether or not the subrecipient should have received an audit and whether or not they had received an audit. IDOE relied on the Indiana State Board of Accounts to provide them with an audit report of their subrecipients. IDOE had not maintained a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-133, Subpart D, section .400 states in part:

"A pass-through entity shall perform the following for the Federal awards it makes: . . .

(4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. . . ."

2 CFR 200.331 states in part:

"All pass-through entities must . . .

(f) Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements. . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Subrecipient Monitoring compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to IDOE.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Recommendation*

We recommended IDOE's management establish internal controls, policies, and procedures related to the grant agreement and Subrecipient Monitoring compliance requirement to ensure compliance.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-016 - SPECIAL TESTS AND PROVISIONS - ACCESS TO FEDERAL FUNDS FOR NEW OR SIGNIFICANTLY EXPANDED CHARTER SCHOOLS**

Federal Agency: U.S. Department of Education

Federal Program: Special Education Cluster (IDEA)

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): H027A110084, H027A130084, H027A140084, H027A150084, H173A110104, H173A120104, H173A130104, H173A140104, H173A150104

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions compliance requirement - Access to Federal Funds for New or Significantly Expanded Charter Schools.

*Context*

The Part B Grants Supervisor maintained an allocation spreadsheet for new charter schools during the audit period that calculated the allocations going to the various new charter schools; however, the supervisor was the only individual involved in this process and there was no other review, oversight, or approval.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system placed IDOE at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended IDOE's management establish controls related to the grant agreement and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-017 - LEVEL OF EFFORT AND EARMARKING**

Federal Agency: U.S. Department of Education

Federal Program: Special Education Cluster (IDEA)

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): H027A110084, H027A130084, H027A140084, H027A150084, H173A110104, H173A120104, H173A130104, H173A140104, H173A150104

*Condition*

Management of the Indiana Department of Education (IDOE) had not established an effective internal control system related to the grant agreement and the Level of Effort and Earmarking compliance requirement.

*Context*

The Part B Grants Supervisor maintained a tracking spreadsheet for Level of Effort and Earmarking during the audit period that calculated the maintenance of effort as well as the allocations for the LEAs; however, the supervisor was the only individual involved in this process and there was no other review, oversight, or approval.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management of IDOE had not developed a system of internal controls over the Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools compliance requirement, which would have prevented, or detected and corrected, material noncompliance.

*Effect*

The failure to establish an effective internal control system placed IDOE at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Recommendation*

We recommended IDOE's management establish controls related to the grant agreement and Special Tests and Provisions - Access to Federal Funds for New or Significantly Expanded Charter Schools compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2016-018 - CASH MANAGEMENT**

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Numbers and Years (or Other Identifying Numbers): 1004IN400, 1304IN4005,  
1404IN4005, 1504INCSES,  
1604INCSES

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-015.

*Condition*

Management of the Department of Child Services (DCS) had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement. DCS had not monitored their subrecipients to ensure the requirements of the Cash Management Compliance requirement were met.

*Context*

Policies and procedures were not in place to monitor subrecipients for Cash Management compliance requirements; therefore, no monitoring was performed to ensure subrecipients minimized the time elapsing between the transfer of federal funds from DCS and the disbursement of funds by the subrecipient for program purposes.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.331 states in part:

" . . . (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; . . . "

2 CFR 200.305 states in part:

" . . . (b) For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

Management of DCS had not developed a system of internal controls over the Cash Management compliance requirement, which would have prevented, or detected and corrected material noncompliance.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to the DCS.

*Recommendation*

We recommended that DCS management establish policies, procedures, and controls related to the grant agreement and the Cash Management compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-019 - SUBRECIPIENT MONITORING**

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Child Support Enforcement

CFDA Number: 93.563

Federal Award Numbers and Years (or Other Identifying Numbers): 1004IN400, 1304IN4005,  
1404IN4005, 1504INCSES,  
1604INCSES

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-014.

*Condition*

Management of the Indiana Department of Child Services (DCS) had not designed and implemented an effective internal control system over the grant agreement and Subrecipient Monitoring compliance requirement. Controls were not in place to ensure that all subrecipients received an audit if the requirements of 2 CFR 200, Subpart F, were met. Additionally, controls were not in place to ensure that all subrecipients were monitoring during the award period. Furthermore, testing revealed that not all subrecipients were monitored during the award period.

*Context*

Out of 92 subrecipients, DCS only monitored one-third during the audit period. DCS had not developed a method to evaluate risk of noncompliance for each subrecipient. The subrecipients selected for monitoring were selected at random.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.331 states in part:

". . . (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency)

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward: . . ."

*Cause*

Management of DCS had not developed a system of internal controls over the Subrecipient Monitoring compliance requirement, which would have prevented, or detected and corrected, material non-compliance.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance of the grant agreement or compliance requirement could have resulted in the loss of federal funds to DCS.

*Recommendation*

We recommended that DCS management establish policies, procedures, and controls related to the grant agreement and the Subrecipient Monitoring compliance requirement.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-020 - ACTIVITIES ALLOWED OR UNALLOWED,  
ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY**

Federal Agency: Department of Health and Human Services

Federal Program: Temporary Assistance for Needy Families (TANF)

CFDA Number: 93.558

Federal Award Numbers and Years (or Other Identifying Numbers): 1102INTANF, 1202INTANF,  
1302INTANF, 1402INTANF,  
1502INTANF, 1601INTANF

*Condition*

Management of the Department of Child Services (DCS) had not established an effective internal control system related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility. Controls in place for the Emergency Assistance Program were not effective to ensure that expenditures were paid on behalf of families who were eligible to receive benefits. During the audit period, payments were made on behalf of families who were not eligible to receive benefits. We noted payments paid that were outside of the period of eligibility.

*Context*

Emergency Assistance services can be provided to eligible families within 30 days of identification of eligibility and need, and can be authorized for a period of 120 days. Families can only be eligible once in a 12 month period. We tested a sample of forty transactions to ensure the date of service was within the period of eligibility. Five of the forty transactions were dated more than the 120 days after identification of eligibility. In addition, one of the five cases also received Emergency Assistance more than once in a 12 month period. These five errors have resulted in a known questioned cost of \$213, with additional review revealing a likely questioned cost exceeding \$25,000.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework' issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

45 CFR 205.60 states in part:

"A State plan under title I, IV—A, X, XIV, or XVI (AABD) of the Social Security Act must provide that:

(a) The state agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determinations of eligibility, the provisions of financial assistance, and the use of any information obtained under § 205.55, with respect to individuals denied, recipients whose benefits have been terminated, recipients whose benefits have been modified, and the dollar value of those denials, terminations and modifications. Under this requirement, the agency will keep individual records which contain pertinent facts about each applicant and recipient. The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility; and the basis for discontinuing assistance. . . ."

State Plan Temporary Assistance for Needy Families (TANF) Block Grant State of Indiana (effective January 1, 2014) page 5, states in part:

"Services are authorized within 30 days of the identification of eligibility and need and can be authorized for a period not to exceed 120 days."

Indiana Department of Child Services Child Welfare Manual (dated December 1, 2015) Chapter 15, Section 11, page 2, states in part:

"A family may be eligible for EA funding only once in a 12 month period. If any AG member was authorized for EA services in the 12 months prior to the application date, the child is ineligible."

*Cause*

Management of DCS had not established an effective system of internal controls related to the above compliance requirements that would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to DCS.

*Questioned Costs*

The five errors identified have resulted in a known questioned cost of \$213, with additional review revealing likely questioned cost exceeding \$25,000.

*Recommendation*

We recommended that DCS management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-021 - PERIOD OF PERFORMANCE***

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Temporary Assistance for Needy Families (TANF)

CFDA Number: 93.558

Federal Award Numbers and Years (or Other Identifying Numbers): 1102INTANF, 1202INTANF,  
1302INTANF, 1402INTANF,  
1502INTANF, 1601INTANF

*Condition*

Management of the Department of Child Services (DCS) had not established an effective internal control system, related to the grant agreement and the Period of Performance compliance requirement. Controls in place were not effective to ensure that expenditures were paid from a grant year that was open at the time that the underlying obligation occurred. We noted payments made that were obligated outside of the period of performance.

*Context*

We tested a sample of sixty-five transactions paid during the audit period. Six of those transactions had an obligation date of September 2015, but were charged to an award with a period of performance beginning October 1, 2015.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

45 CFR 75.309 states:

"(a) A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §75.461) and any costs incurred before the HHS awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity. Funds available to pay allowable costs during the period of performance include both Federal funds awarded and carryover balances.

(b) A non-Federal entity must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the final Federal Financial Report (FFR). This deadline may be extended with prior written approval from the HHS awarding agency."

*Cause*

Management of DCS had not established an effective system of internal controls related to the Period of Performance compliance requirement that would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that DCS management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-022 - ACTIVITIES ALLOWED OR UNALLOWED,  
ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY***

Federal Agency: U.S. Department of Health and Human Services

Federal Program: TANF Cluster

CFDA Numbers: 93.558, 93.714

Federal Award Numbers and Years (or Other Identifying Numbers): 0902INTANF, 1002INTANF,  
1102INTANF, 1202INTANF,  
1302INTANF, 1402INTANF,  
1502INTANF, 1601INTANF

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-021.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Family and Social Services Administration (FSSA) had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility in relation to Cash Assistance. During our testing of cash assistance payments, we found three cases that did not have sufficient supporting documentation to establish eligibility and one case that received benefits beyond the period of eligibility.

*Context*

In the original sample of twenty-five recipients, three of the cases did not have sufficient supporting documentation to establish eligibility. More specifically, the three separate cases did not have copies of birth certificates or two alternative forms of verification of relationships included within the supporting documentation. Due to the lack of supporting documentation, the relationships between the eligible child and the adult cash assistant applicant cannot be verified. One of the twenty-five sampled recipients received benefits exceeding their period of eligibility. This recipient was eligible to receive refugee cash assistance as a qualified alien. The State's policy states that the benefit is limited to the first eight months the refugee is in the United States. The recipient actually received nine months of benefits.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

45 CFR 205.60 states in part:

"A State plan under title I, IV—A, X, XIV, or XVI (AABD) of the Social Security Act must provide that:

(a) The state agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determinations of eligibility, the provisions of financial assistance, and the use of any information obtained under § 205.55, with respect to individuals denied, recipients whose

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

benefits have been terminated, recipients whose benefits have been modified, and the dollar value of those denials, terminations and modifications. Under this requirement, the agency will keep individual records which contain pertinent facts about each applicant and recipient. The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility; and the basis for discontinuing assistance. . . ."

8 U.S.C 1612(b)(1) states:

"Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3))."

Indiana Family and Social Services Administration, Division of Family Resources Policy Manual 1605.20.00 states:

"Refugee Cash Assistance (RCA) is limited to those individuals who meet immigration status and identification requirements as a refugee and who are not eligible for cash assistance under the TANF programs. (f2) Refugees who are 65 years of age or older, or who are disabled or blind, must be referred to the Social Security Administration (SSA) to apply for Supplemental Security Income (SSI). Cash Assistance may be provided until SSI is approved. Assistance under this category is limited to the first eight months the refugee is in the United States."

*Cause*

Management of FSSA had not established an effective system of internal control related to the compliance requirements noted above, that would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that the FSSA's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2016-023 - SPECIAL TESTS AND PROVISIONS- CHILD SUPPORT NON-COOPERATION**

Federal Agency: U.S. Department of Health and Human Services

Federal Program: TANF Cluster

CFDA Number: 93.558 & 93.714

Federal Award Numbers and Years (or Other Identifying Numbers): 0902INTANF, 1002INTANF,  
1102INTANF, 1202INTANF,  
1302INTANF, 1402INTANF,  
1502INTANF, 1601INTANF

*Condition*

Management of the Family and Social Services Administration (FSSA) had not established an effective internal control system, which would include segregation of duties, in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Child Support Non-Cooperation compliance requirements. Our compliance testing revealed cases that were not in compliance with the requirements of the special test and provision.

*Context*

In the original sample of 40 cases, seven errors were identified. Four of the seven non-compliant cases were a result of a problem with the interface between the Indiana Support Enforcement Tracking System (ISETS) and the FSSA system, Indiana Client Eligibility System (ICES). In these four cases, ISETS shows a non-cooperation notice being sent to ICES; however, ICES did not receive the notice. Therefore, benefits were either not discontinued or not discontinued timely.

	<u>Date of Notice of Non-Cooperation</u>	<u>Benefits Discontinued</u>	<u>Last Benefit Check Date</u>
Case 1	03-10-2016	No	03-01-2017
Case 2	04-09-2016	Yes	07-01-2016
Case 3	05-04-2016	No	03-01-2017
Case 4	07-10-2015	Yes	11-01-2015

The remaining three non-compliant cases are due to benefits not being discontinued within a reasonable time after a non-cooperation notice was received by ICES. After the notice was received by FSSA, the three case continued to receive benefits for two, three, and six months before being discontinued.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

45 CFR 264.30 states in part:

"(a) . . . (2) Referred individuals must cooperate in establishing paternity and in establishing, modifying, or enforcing a support order with respect to the child.

(b) If the IV-D agency determines that an individual is not cooperating, and the individual does not qualify for a good cause or other exception established by the State agency responsible for making good cause determination in accordance with section 454(29) of the Act or for a good cause domestic violence waiver granted in accordance with 260.52 of this chapter, then the IV-D agency must notify the IV-A agency promptly.

(c) The IV-A agency must then take appropriate action by:

(1) Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or

(2) Denying the family any assistance under the program."

*Cause*

Management of FSSA had not established an effective system of internal control related to the Special Tests and Provisions - Child Support Non-Cooperation compliance requirement that would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2016-024 - EARMARKING**

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services\_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Numbers and Years (or Other Identifying Numbers): H126A140019, H126A150019-15C, H126A160019-16A, ESTIMATE, ESTIMATE-62110

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-024.

*Condition*

Management of the Indiana Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Earmarking compliance requirement. FSSA is required to reserve at least 15 percent of its Vocational Rehabilitation (VR) allotment for pre-employment services. FSSA had not identified a way to track the pre-employment services and, therefore, 15 percent of the allotment was not reserved for the provision of pre-employment transition services during the audit period.

*Context*

Since FSSA could not identify a way to track pre-employment services and expenditures associated with those services, we could not test the requirement of Earmarking for compliance.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

29 USC 730(d) states:

**"Funds for pre-employment transition services**

- (1) From any State allotment under subsection (a) for a fiscal year, the State shall reserve not less than 15 percent of the allotted funds for the provision of pre-employment transition services.
- (2) Such reserved funds shall not be used to pay for the administrative costs of providing pre-employment transition services."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Earmarking compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that the FSSA's management establish controls, including segregation of duties, related to the grant agreement and the Earmarking compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-025 - PERIOD OF PERFORMANCE***

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services\_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number and Year (or Other Identifying Number): H126A160019-16A

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-025.

*Condition*

Management of the Indiana Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Period of Performance compliance requirement. Additionally, we identified transactions charged to the grant in which the obligation was outside the period of performance.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Context*

In our sample of 39 transactions, we identified 14 transactions, for a total of \$34,816, which was obligated prior to the period of performance. We consider the \$34,816 to be questioned costs.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.309 states:

**"Period of Performance.** A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Period of Performance compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Questioned Costs*

There were \$34,816 of costs we consider to be questioned costs.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and the Period of Performance compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-026 - ELIGIBILITY**

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services\_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Numbers and Years (or Other Identifying Numbers): H126A140019, H126A150019-15C,  
H126A160019-16A, ESTIMATE,  
ESTIMATE-62110

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-022.

*Condition*

Management of the Indiana Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Eligibility compliance requirement. Controls in place were not effective to ensure that eligibility determinations were occurring within 60 days of the application date. We identified instances where clients were determined eligible more than 60 days after the application date.

*Context*

In our sample of 25 clients who were receiving VR services during the audit period, 3 were determined eligible after the 60 day period and no waiver or exception was executed.

	Application Date	Eligibility Date	Number of Days Between
Client 1	01-26-2016	05-02-2016	97
Client 2	11-12-2015	02-10-2016	90
Client 3	05-20-2015	08-03-2015	75

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

29 USC 722 (a)(6) states in part:

**"Timeline for making an eligibility determination** The designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless-

- (A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and individual agree to a specific extension of time; or
- (B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B)."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Eligibility compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and Eligibility compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2016-027 - SPECIAL TESTS AND PROVISIONS - COMPLETION OF IPEs**

Federal Agency: U.S Department of Education

Federal Program: Rehabilitation Services\_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Numbers and Years (or Other Identifying Numbers): H126A140019, H126A150019-15C, H126A160019-16A, ESTIMATE, ESTIMATE-62110

*Repeat Finding*

This finding was originally reported during the Fiscal Year 2015 audit as Finding 2015-023.

*Condition*

Management of the Indiana Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Special Tests and Provision - Completion of IPEs compliance requirement. Controls in place were not effective to ensure that IPEs were developed within 90 days of eligibility determinations, or by the agreed upon extension. We identified instances where IPEs were developed after the 90 days of the eligibility determination date.

*Context*

We selected a sample of 60 clients, who were determined to be eligible during our audit period, to test. Within the first 27 clients, we found 6 did not have an IPE developed within the 90 day requirement. Another one was found with an extension granted; however, the IPE was not developed within the extension period.

	<u>Date of Eligibility</u>	<u>Date IPE Developed</u>	<u>Date of Extension, if granted</u>	<u>Number of Days Between Eligibility and IPE</u>
Client 1	04-07-2016	08-04-2016		119
Client 2	06-14-2016	10-31-2016		139
Client 3	10-05-2015	02-1-2016		130
Client 4	07-2-2015	02-15-2016	02-01-2016	201
Client 5	03-29-2016	07-28-2016		121
Client 6	03-07-2016	07-08-2016		123
Client 7	06-01-2016	09-15-2016		106

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

29 USC 722(b)(3)(F) states:

**"Timeline for completing the individualized plan for employment** The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility described in paragraph (1), unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Special Tests and Provision - Completion of IPEs compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that the FSSA's management establish controls, including segregation of duties, related to the grant agreement and Special Tests and Provision - Completion of IPEs compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-028 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: U.S. Department of Education

Federal Program: Rehabilitation Services\_Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Numbers and Years (or Other Identifying Numbers): H126A140019, H126A150019-15C,  
H126A160019-16A, ESTIMATE,  
ESTIMATE 62110

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Indiana Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. Controls were not in place to ensure that the Agency was following the State's procurement policies and procedures. Our test of client service vendors found 54 instances where a contract should have been in place and was not, indicating noncompliance. Additionally, processes and procedures were not in place to ensure that FSSA was verifying the vendor was not suspended or debarred prior to entering into a covered transaction, thus client service vendors were not verified to ensure the suspension and debarment requirement was met.

*Context*

Vendors that provide client services, such as employment services or nonemployment services, were not procured through the proper State's procurement process. Vocational Rehabilitation staff were not able to provide documentation to support the deviation from the approved process. Additionally, due to the deviation from the State's procurement processes, vocational rehabilitation staff had not ensured that client service vendors were not suspended or debarred prior to entering into the covered transaction.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.213 states:

"Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.317 states:

"When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. The state will comply with §200.322 Procurement of recovered materials and ensure that every purchase order or other contract includes any clauses required by section §200.326 Contract provisions. All other non-Federal entities, including subrecipients of a state, will follow §§200.318 General procurement standards through 200.326 Contract provisions."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Procurement and Suspension and Debarment compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and Procurement and Suspension and Debarment compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

*Auditor's Response*

The federal regulations under the new Uniform Guidance, which are cited in the criteria section above, clearly indicate that the State must follow the same procurement policies and procedures for procurements from federal funds as the State used for procurements from non-federal funds. The policies and procedures that FSSA management followed during the audit period for the procurement of client-service vendors deviated from the State approved policies and procedures. FSSA management did not have the policies and procedures they were following documented in writing nor did they have these policies and procedures approved by proper State officials prior to use.

***FINDING 2016-029 - Matching, Level of Effort, Earmarking***

Federal Agency: U.S. Department of Health and Human Services

Federal Program: Block Grants for Prevention and Treatment of Substance Abuse

CFDA Number: 93.959

Federal Award Numbers and Years (or Other Identifying Numbers): 2B08TI010019-14, 2B08TI010019-15

*Condition*

Management of the Family and Social Service Administration (FSSA) had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Matching, Level of Effort, Earmarking compliance requirement.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Context*

The Block Grant for Prevention and Treatment of Substance Abuse Expenditures Compliance Report for SFY2016, which contained detailed information for Level of Effort and Earmarking, was filed electronically on WebBGAS, SAMHSA Block Grant Application System. The procedure requires FSSA Division of Mental Health Administration Director's approval of the report before submission, but FSSA was unable to provide any evidence that this report was reviewed or approved by the Director prior to submission. This report was submitted by the same DMHA staff who initiated the report.

*Criteria*

2 CFR Section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States and the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Matching, Level of Effort, Earmarking compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls could have enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and Matching, Level of Effort, Earmarking compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-030 - REPORTING**

Federal Agency: U.S. Department of Agriculture

Federal Program: Supplemental Nutrition Assistance Program

CFDA Number: 10.551

Federal Award Numbers and Years (or Other Identifying Numbers): 62100, 2IN400099

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition*

Management of the Family and Social Services Administration (FSSA) had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. Controls were not in place over the FNS-209 report to ensure that sufficient audit evidence was maintained to support compliance with reporting requirements.

*Context*

The FNS-209 report is generated by FSSA's Cognos system, but management had not verified the accuracy of the information generated by the system. Management was also unable to provide any system documentation that would support the data reported on the FNS-209. Sufficient audit evidence could not be provided for audit for any of the FNS-209 reports covering the audit period.

*Criteria*

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework,' issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

45 CFR 75.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also §75.450."

*Cause*

Management of FSSA had not established an effective system of internal control, related to the Reporting compliance requirement, which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls could have enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and Reporting compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-031 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, SPECIAL TESTS AND PROVISIONS - ADP SYSTEM FOR SNAP**

Federal Agency: U.S. Department of Agriculture

Federal Program: Supplemental Nutrition Assistance Program

CFDA Number: 10.551

Federal Award Numbers and Years (or Other Identifying Numbers): 62100, 2IN400099

*Condition*

Management of the Family and Social Services Administration (FSSA) had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP System for SNAP. Controls were not in place to ensure records were maintained for audit. FSSA was unable to provide for audit detail of the benefits processed by JP Morgan Chase from July 1, 2015 through September 27, 2015, to support the draws made on the State's EBT benefit account with the U.S. Treasury. As a result of this limitation, sufficient audit evidence over Allowable Activities, Allowable Costs/Cost Principles, and Special Tests and Provisions - ADP System for SNAP was not obtained.

Additionally, controls in place were not effective to ensure that only eligible individuals received monthly benefits and the eligibility documentation was saved within FSSA's online document center, Family Assistance and Care through Technology Services (FACTS) system. Of the benefits processed between September 28, 2015 and June 30, 2016, instances were found where the required eligibility documentation was not available within FACTS. Furthermore, we found that instance where if a card was inactive for more than 12 months, the benefits were not expunged.

*Context*

We were unable to test 17 of the 47 recipients in our sample for compliance with Allowable Activities, Allowable Costs/Costs Principles, Special Tests and Provisions - ADP System requirements. Management of FSSA was unable to provide a complete population of recipients that received and used benefits of the program during the audit period. Of the 30 recipients that were able to be tested, 3 did not have all of the required eligibility documentation available within FACTS for review. Specifically, these 3 cases did not contain a bank statement, which was necessary to confirm the amount of resources available to the household.

We also selected a sample of Electronic Benefits Transfer (EBT) cards that carried a balance of over \$5,000 to ensure that FSSA was expunging card benefits after 12 months of inactivity. We discovered that 1 of the 11 accounts tested, had a last date of withdrawal of April 29, 2012, and benefits were not expunged until July 22, 2016.

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

45 CFR 75.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework,' issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

45 CFR 75.361 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the HHS awarding agency or pass-through entity in the case of a subrecipient. HHS awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities. . . ."

7 CFR 272.10(b) states in part:

"(1) . . . (x) Store information concerning characteristics of all household members;

- (xi) Provide for appropriate Social Security enumeration for all required household members; and
- (xii) Provide for monthly reporting and retrospective budgeting as required.

(2) *Issuance, reconciliation and reporting.*

- (i) Generate authorizations for benefits in issuance systems employing ATP's, direct mail, or online issuance and store all Household Issuance Record (HIR) information including: name and address of household, household size, period of certification, amount of allotment, case type (PA or NA), name and address of authorized representative, and racial/ethnic data;
- (ii) Prevent a duplicate HIR from being established for presently participating or disqualified households;
- (iii) Allow for authorized under- or over-issuance due to claims collection or restored benefits; . . ."

7 U.S.C. chapter 51, section 2016 (h)(12) states in part:

". . . (C) **Benefit expunging.**-- A State agency shall expunge benefits that have not been accessed by a household after a period of 12 months. . . ."

STATE OF INDIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

Management of FSSA had not established an effective system of internal control, related to the compliance requirements listed above, to ensure records were made available for audit and which would have prevented, or detected and corrected, noncompliance.

*Effect*

The failure to establish internal controls prevented the records from being made available for audit and enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to FSSA.

*Recommendation*

We recommended that FSSA's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



February 15, 2017

Mr. Paul D. Joyce, CPA, State Examiner  
Indiana State Board of Accounts (SBOA)  
302 W. Washington Street  
Indiana Government Center South, Suite E418  
Indianapolis, IN 46204

Dear Mr. Joyce:

This letter provides the corrective action plans to the section II financial statement findings for inclusion in the State's Federal Single Audit Report for the fiscal year ended June 30, 2016.

### FINDING 2016-001, RECONCILIATIONS BETWEEN KIDTRAKS AND ENCOMPASS

The Indiana Department of Child Services (DCS) maintained a subsidiary system, KidTraks. DCS did not perform a comprehensive reconciliation between expenses recorded in KidTraks and expenses posted to the State's accounting system, ENCOMPASS. Management of DCS had not designed and implemented adequate controls to sufficiently compensate for this deficiency.

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed DCS at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview-- General Guidelines and Policy, Section IV)

For the views of responsible officials, refer to the Corrective Action Plan which is part of this report.

Corrective Action Plan:

In a concerted effort to enhance the subsidiary application DCS KidTraks (KT), the Indiana Department of Child Services (DCS) has organized a collaborative team including participants from DCS Finance, DCS ENCOMPASS Subject Matter Experts (SME), and DCS Information Technology (IT). The collective "KT/State GL Reconciliation Project" was initiated this past September, 2016. Following a review of the multiple KidTraks Modules which are used to supplement ENCOMPASS transactions, an overall project plan was formed. The comprehensive plan includes enhancing the Accounts Receivable, Accounts Payable, and Procurement modules. In addition, new reporting tools and screens will be developed to augment efforts to maintain ongoing reconciliation between ENCOMPASS and KidTraks. As development progresses, incorporation of checks and balances will be further developed to ensure that KidTraks transactions reflect transparency and data integrity.

The initial phase to review and reengineer KT Accounts Receivable Module is actively underway. Current DCS business rules and utilization of KT in day-to-day business are being evaluated in parallel with ENCOMPASS functionality. Security, data entry points, incorporation of additional validation measures and reporting are being enhanced to clearly establish more linkages between the two applications, reduce duplicate entry, and establish a clear path showing expenses used to support federal draws.

In addition to supplementing deposit and receipt transactions, KidTraks will be incorporating the DCS Cash Book Module which will eliminate the use of multiple EXCEL spreadsheets, while allowing for the attachment of back-up documentation and reference material. As we export more ENCOMPASS data and incorporate it within KidTraks, reports, screens and alerts will be designed to create General Ledger functionality, assisting in the control and organization of documentation.

Contact Persons:

Todd Fandrei, Assistant Deputy Director, Cost and Revenue Analysis, Department of Child Services, Telephone 317-234-5976, [todd.fandrei@dcs.in.gov](mailto:todd.fandrei@dcs.in.gov)

Clinton Bohm, Assistant Deputy Director for Special Projects, Department of Child Services, Telephone 317-234-5768, [clinton.bohm@dcs.in.gov](mailto:clinton.bohm@dcs.in.gov)

Anticipated Completion Date:

January 12, 2018

FINDING 2016-002- INTERNAL CONTROLS OVER ENCOMPASS ACCOUNTING SYSTEM

There were internal control and security issues in the State's ENCOMPASS accounting system. The issues included deficiencies in the following areas:

- approval processes
- segregation of duties
- password controls
- system access
- system monitoring controls

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the State at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

It is critical that an agency approver, whether it be approval of a deposit, payment, journal entry or asset entry, be cognizant of the various funds, accounts, departments and programs of his/her agency in order that incorrect entries be returned to the entry staff for correction prior to approval. It is not the responsibility of the AOS staff to be aware of all operations within an agency and how they should be recorded. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 2.4)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Segregation of duties and safeguarding controls over cash, all other assets, and all forms of information processing are necessary for proper internal control.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.2)

Reporting of user access rights to system functional capabilities and information, as well as reporting of security definitions such as configuration parameters, workflow approval hierarchy, thresholds, and override capabilities must be available to, and easily understood by, management and State Board of Accounts' Field Examiners during the course of a regularly scheduled audit. These security definitions and user access rights must enforce adequate segregation of duties for the accounting system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 14.3.4)

For the views of responsible officials, refer to the Corrective Action Plan which is part of this report.

Corrective Action Plan:

A plan with specific actions was developed to address the five issues. The contact persons for this finding updated the Indiana State Board of Accounts on the statuses of resolving these issues during the 2016 CAFR audit.

Complete corrective action was taken on two of the five issues which are segregation of duties and system access. Some corrective action was taken and some is in progress for the remaining three issues of approval processes, password controls, and system monitoring controls.

SBOA CAFR Audit Corrective Action Plans  
February 15, 2017  
Page 4

Contact Persons:

Courtney Everett, Deputy Auditor of Finance, Auditor of State's Office, (317) 233-9817, [ceverett@auditor.in.gov](mailto:ceverett@auditor.in.gov) (Approval Processes and System Access)

Dwight Dorsey, Deputy IT Director, Government Management Information Systems (GMIS), Indiana Office of Technology, (317) 234-8641, [ddorsey@iot.in.gov](mailto:ddorsey@iot.in.gov) (Password Controls and System Monitoring Controls)

John Bayse, Deputy Director, State Personnel Department, (317) 232-3236, [jbayse@spd.in.gov](mailto:jbayse@spd.in.gov) (System Access)

Kevin Wilson, Deputy/Assistant IT Director, GMIS Indiana Office of Technology, (317) 234-4242, [kwilson@iot.in.gov](mailto:kwilson@iot.in.gov) (Approval Processes, Segregation of Duties, and System Access)

Paul Jascheway, Deputy/Assistant IT Director, Indiana Office of Technology, GMIS, (317) 232-6752, [pjascheway@iot.in.gov](mailto:pjascheway@iot.in.gov) (Approval Processes and System Access)

Stefanie Krevda, Deputy Director, State Personnel Department, (317) 232-4581, [skrevda@iot.in.gov](mailto:skrevda@iot.in.gov) (System Access)

Tad Stahl, Chief Information Security Officer, Indiana Office of Technology, ((317) 234-3434, [tstahl@iot.in.gov](mailto:tstahl@iot.in.gov) (System Access)

Tom Michalak, Chief Financial Officer, State Personnel Department, (317) 232-3058, [tmichalak@spd.in.gov](mailto:tmichalak@spd.in.gov) (System Access)

Mel Hirtzel, IT Director, Auditor of State's Office, (317) 234-1916, [mhirtzel@auditor.in.gov](mailto:mhirtzel@auditor.in.gov) (Approval Processes and System Access)

Anticipated Completion Date:

June 30, 2017

If you have any questions or require further information, please contact Courtney Everett, Deputy Auditor of Operations, at 233-9817 or via email at [ceverett@auditor.in.gov](mailto:ceverett@auditor.in.gov).

Sincerely,

  
Tera Klutz, CPA  
Auditor of State  
State of Indiana

  
Kelly Mitchell  
Treasurer of State  
State of Indiana

  
Micah Vincent  
Director  
Office of Management and Budget



INDIANA  
**WORKFORCE**  
DEVELOPMENT

AND ITS **WorkOne** CAREER CENTERS

**CORRECTIVE ACTION PLAN**

**FINDING 2016-003 - PERIOD OF PERFORMANCE**

Contact Person Responsible for Corrective Action:  
Les Williams, Controller

Contact Phone Number:  
317-232-3269

Views of Responsible Official:  
We agree with the finding.

Description of Corrective Action Plan:

The Indiana Department of Workforce Development (DWD) utilizes journals within the state's accounting system, PeopleSoft, in order to ensure that pooled costs are properly attributed to the correct grant. One such journal submitted by DWD moved costs to the 2015 Workforce Innovation and Opportunity Act (WIOA) grant. However, the underlying costs were incurred by DWD in January 2015. The 2015 WIOA grant's period of availability did not begin until July 2015. This was an error by DWD. Once this error was discovered, DWD immediately created a journal to move the costs to the appropriate grant, the 2014 Workforce Investment Act funds (AA-25352-14-55-A-18). DWD also reviewed all journals that were processed by our agency from July 2014 until December 2016 to ensure that there were no additional errors. We found that all other journals were proper.

DWD's policy for journal submission is that the initiator of the journal ensures that the underlying transactions are properly within the charged grant's period of availability. The approver of the journal must also review the underlying transactions for the period of availability. After this error, DWD added an additional quarterly check of all journals. Once a quarter, all journals that are processed by DWD will receive an additional thorough review by other knowledgeable Finance Division staff. This ensures that every journal will have at least three well-informed individuals review the journals for proper posting to the correct grant. We believe that although the journal that was found to be in error was an anomaly, it is a necessary step to ensure that all funds for all grants are properly expended.

Anticipated Completion Date:  
The new process started in January 2017.



OFFICE OF THE LT. GOVERNOR  
SUZANNE CROUCH

200 West Washington Street Suite 333  
INDIANAPOLIS, INDIANA 46204-2027

CORRECTIVE ACTION PLAN

**FINDING 2016-004 SUBRECIPIENT MONITORING**

Contact Person Responsible for Corrective Action: Tammy Butts/Mitzi Moss  
Contact Phone Number: 317-232-8335/317-232-8914

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

OCRA and Grant Services are aware that sub-recipients must be audited as required by Subpart F—Audit Requirements of 2 CFR 200 when it is expected that the sub-recipient's Federal awards expended during the fiscal year equals or exceeds the threshold set forth in § 200.501 Audit requirements.

A procedure is in place but it was determined to be inadequate and inefficient by Grant Services. In late fall of 2016, Grant Services began work on establishing a new process for ensuring that this requirement is met. All clerk treasurers were contacted to submit audit forms required by OCRA as identified in the OCRA CDBG Handbook in order to get the old process up-to-date.

A revised process is currently under design and it is expected that the existing procedure will be updated by 6/30/2017.

In the future, Grant Service will take the following steps to meet this requirement:

1. All open grants will be added to the sub recipient audit monitoring spreadsheet
2. Newly awarded sub-recipients will be added to the audit monitoring spreadsheet as each round occurs
3. Planning grant recipients will be added each month when awarded
4. On a yearly basis, Grant Services will search the SBOA website to ascertain whether an audit for the sub recipient has been completed
5. Each year, all sub-recipients that have not received a certificate of completion will be contacted to determine whether the federal audit threshold for federal funds has been met or exceeded
6. If an audit is required or has been completed, it will be processed in accordance with the established procedure and noted
7. If no audit is required, it will be noted on the spreadsheet
8. The existing spreadsheet will be modified to include a column to document that Grant Services has done a check on the sub-recipient, and quarterly, the State CDBG Program Manager will document review of the spreadsheet in writing
9. Once implemented, the procedure will be evaluated and modified as the need arises to establish an efficient system for meeting the regulation

Anticipated Completion Date: 06/30/2017



Eric J. Holcomb  
Governor  
Jerome M. Adams, MD, MPH  
State Health Commissioner

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-005 SUBRECIPIENT MONITORING***

Contact Person Responsible for Corrective Action: Kimberly Diller  
Contact Phone Number: 317-234-8743

**Views of Responsible Official:** We concur with the finding that an effective internal control system for subrecipient monitoring compliance was not in place during the audit period. Controls were not in place to ensure that all subrecipients meeting the requirement of OMB Circular A-133 or 2 CFR Part 200, Subpart F received an audit and submitted that audit to ISDH finance staff.

**Description of Corrective Action Plan:** At execution of all subrecipient agreements, ISDH standard practice is to require the subrecipient complete a questionnaire containing the required elements of reporting for the Federal Financial Accountability and Transparency Act (FFATA). To comply with 2 CFR Part 200, Subpart F, ISDH has added the following field to this questionnaire:

"Does your organization receive \$750,000 or more annually in Federal funds? If yes, an annual independent audit is required to be provided to the Indiana State Department of Health."

In receiving these completed questionnaires, staff of ISDH Finance, Contract and Audit Section will compile a list of organizations indicating YES in this field, and indicate compliance with 2 CFR Part 200, Subpart F when required organizations submit their annual audit.

Additionally, staff of ISDH Finance, Contract and Audit Section will send an annual letter describing this requirement and the steps necessary for compliance to all organization indicating YES in this field.

A copy of both the Subrecipient Questionnaire and Audit Reminder Letter are available upon request at ISDH.

**Anticipated Completion Date:** This practice began March 1, 2017

  
(Signature)

Interim Chief Financial Officer  
(Title)

3/16/2017  
(Date)





Eric J. Holcomb  
Governor

Jerome M. Adams, MD, MPH  
State Health Commissioner

## CORRECTIVE ACTION PLAN

### **FINDING 2016-006 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND SPECIAL TESTS AND PROVISIONS – FOOD INSTRUMENT AND CASH-VALUE VOUCHER DISPOSITION**

Contact Person Responsible for Corrective Action: Kimberly Diller  
Contact Phone Number: 317-234-8743

Views of Responsible Official: We concur with the finding that ISDH had not established an effective internal control system related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions – Food Instrument and Cash-Value Voucher Disposition. ISDH relied on our contracted service providers to ensure these requirements were met without requiring detailed reports to determine the ultimate disposition of all FI/CVV/EBTs within 120 days of the first valid date of participant use, or requiring a SOC 1 Report from the vendor to ensure effective internal controls are in place.

Description of Corrective Action Plan: ISDH will require the vendor to supply a SOC 1 Report for the purpose of ensuring effective internal controls are in place related to Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Special Tests and Provisions – Food Instrument and Cash-Value Voucher Disposition.

Anticipated Completion Date: December 31, 2017

  
(Signature)

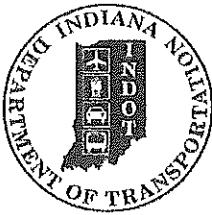
Interim Chief Financial Officer  
(Title)

3/15/17  
(Date)



2 North Meridian Street • Indianapolis, IN 46204  
317.233.1325 tdd 317.233.5577  
[www.statehealth.in.gov](http://www.statehealth.in.gov)

To promote and provide  
essential public health services.



# INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue  
Room N755  
Indianapolis, Indiana 46204

Eric Holcomb, Governor  
Joe McGuinness, Commissioner

## FINDING 2016-007 - SPECIAL TEST AND PROVISIONS – WAGE RATE REQUIREMENTS

### Contact Person Responsible for Corrective Action:

Gregory G. Pankow, State Construction Engineer

### Contact Phone Number:

317-232-5502

### Views of Responsible Official

We concur with the finding. It should be noted that INDOT has shown improvement from previous reviews.

### Description of Corrective Action Plan:

- 1 The Department will move to require Contractors and Sub-Contractors to submit certified payrolls to the Project Engineer/Supervisor (PE/S) electronically as a PDF document, electronically signed and date stamped.
- 2 Construction Management will develop and supply the PE/S with a standardized Excel spreadsheet for use in all Districts to track the certified payroll period ending dates and other information as below.
- 3 The Department will require that on the date the PE/S receives the electronic document from the contractor/sub-contractor, electronically sign and date stamp the PDF as being received and also electronically sign and date any certified payrolls that have been reviewed for accuracy.
- 4 The PE/S will be directed to review payrolls for accuracy for each working contractor once a month.
- 5 The Department will require the PE/S to enter the received and reviewed for accuracy dates on the Department supplied Excel spread sheet for tracking purposes.
- 6 Area Engineers will spot check the PE/S spread sheet on a monthly basis to assure that the PE/S is following policy.
- 7 The Department will develop a system, so that when the PDF files for the certified payrolls are completed by the PE/S, they will then be transferred to ERMS. An MIS project may need to be requested, scheduled and budgeted for to accomplish this task.
- 8 In order to assure compliance with the requirements for submitting certified payrolls, if all certified payrolls are not received on time as required by the contract documents, the PE/S may withhold progress estimates until they are received.
- 9 Construction Management will issue a new Construction Memo that will supersede Construction Memo 15-12, explaining the new policy and expected requirements.

- 10 Construction Management will revise the General Instructions to Field Employees (GIFE) as needed to provide guidance in meeting the policy.
- 11 The Department commits to exploring the use of payroll compliance software which would assist both INDOT and the contractor community by producing, collecting and managing certified payroll reports and workforce data.

**Anticipated Completion Date:**

November 1, 2018



Robert F. Tally Jr.  
(Signature)

Deputy Commissioner Construction Mater  
(Title)

March 17, 2017  
(Date)



# INDIANA DEPARTMENT OF TRANSPORTATION

Office of Materials Management  
120 S. Shortridge Road  
Indianapolis, IN 46219

PHONE: (317) 610-7251  
FAX: (317) 356-9351

Eric Holcomb, Governor  
Joe McGuinness, Commissioner

## CORRECTIVE ACTION PLAN

### **FINDING 2016-008 - SPECIAL TEST AND PROVISIONS - QUALITY ASSURANCE**

**Contact Person Responsible for Corrective Action:**

John Leckie, Statewide Materials & Tests Director

**Contact Phone Number:**

260-519-0133

**Views of Responsible Official:**

We concur with the finding. It should be noted that INDOT has shown steady improvement from past the review and was 95% compliant in FY 16.

**Description of Corrective Action Plan:**

- INDOT will perform reviews of the all active testing personnel (both Construction & Testing) on a quarterly basis. Specifically, INDOT's Districts will download all testing related data on April 1<sup>st</sup>, July 1<sup>st</sup> and Oct 1<sup>st</sup> of each year to ensure proper controls are in place to enhance the compliance of the Quality Assurance Program. The quarterly reviews started on October 1, 2016.
- INDOT will review and modify the current Independent Assurance and Qualified Acceptance Personnel Program. This will be a collaborative effort with both District Testing, Construction and FHWA. Target completion is September 1, 2017.
- INDOT plans to modify current IA resources to better ensure compliance. Target completion is September 1, 2017.
- INDOT is currently working on an upgrade of our current SiteManager program. Once completed it will provide enhanced functionality to track active testers and ensure enhanced compliance. Target completion is January 1, 2019.

**Anticipated Completion Date:**

Please see above.

  
(Signature)

Statewide Materials & Tests Director  
(Title)

3/16/17



DEPARTMENT OF EDUCATION

**Dr. Jennifer McCormick**  
Superintendent of Public Instruction

*Working Together for Student Success*

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-009 Cash Management; Title I Grants to Local Educational Agencies, Special Education Grants to States, Improving Teacher Quality State Grants, School Improvement Grants***

Contact Person Responsible for Corrective Action: Nathan Williamson, Director of School Improvement  
Contact Phone Number: 317-232-6671.

Contact Person Responsible for Corrective Action: Pam Wright, Director, Office of Special Education  
Contact Phone Number: 317-232-6622.

We concur with the finding.

#### **Description of Corrective Action Plan:**

The Division of Title Grants and Support, as well as Special Education, began working with an auditor from the Department of Education (DOE) to create a process that includes both on-site and desktop monitoring using a risk assessment to determine which LEAs will be fiscally monitored each year. LEAs will be monitored for all federal programs simultaneously.

During both the on-site and desktop audits, either the specialist or the auditor will request supporting documentation to determine that the reimbursements were for expenses approved within the Title I, Title IIA, SIG, and Special Education Part B applications; that the activities occurred within the allowable activity period; and that the expenses occurred prior to the submission of the reimbursement request.

#### **Anticipated Completion Date:**

Process began in March 2017



DEPARTMENT OF EDUCATION

**Dr. Jennifer McCormick**  
Superintendent of Public Instruction

*Working Together for Student Success*

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-010 Subrecipient Monitoring; Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants***

Contact Person Responsible for Corrective Action: Nathan Williamson, Director of School Improvement  
Contact Phone Number: 317-232-6671.

We concur with the finding.

#### **Description of Corrective Action Plan:**

The Division of Title Grants and Support revised both of its award notices for Title I and Title IIA for FFY 16 to ensure each includes the proper federal award information at the time of the subaward. These award notices are reviewed by a specialist and approved by a supervisor.

The Division of Title Grants and Support will coordinate a federal grant tracker to include Title grant awards, along with the Office of Special Education and the Office of School and Community Nutrition, to ensure the proper audit was received. This tracker will provide a comprehensive view of the total expended federal funding in order to maintain a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received. LEAs will indicate if they have expended more than \$750,000 total in federal funds to determine eligibility for a federal audit. A tracking system will be created to identify those LEAs that meet or exceed the \$750,000 threshold. The SEA will verify that subrecipients have been audited and have met the audit requirements when the federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

#### **Anticipated Completion Date:**

Award notification completed in fall 2016 for FFY 16.

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-011 Period of Performance; Title I Grants to Local Educational Agencies***

Contact Person Responsible for Corrective Action: Tracy Brown, Director of Accounting  
Contact Phone Number: 317-232-6974.

We concur with the finding.

#### **Description of Corrective Action Plan:**

Controller will notify the Budget Analyst to change the status of a project to "Reject online transactions" once the project period has ended. This status will provide the following message when attempts are made to charge expenses to the closed project: *The status of "Reject online transactions" for project 7000S010Axxxxx prevents additional transactions.* This will ensure that no transactions will be charged to a federal project outside the period of performance.

#### **Anticipated Completion Date:**

Process began in early 2017.



DEPARTMENT OF EDUCATION

**Dr. Jennifer McCormick**  
Superintendent of Public Instruction

*Working Together for Student Success*

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-012 Eligibility, Earmarking, Suspension and Debarment; School Improvement Grants***

Contact Person Responsible for Corrective Action: Nathan Williamson, Director of School Improvement  
Contact Phone Number: 317-232-6671.

We concur with the finding.

#### **Description of Corrective Action Plan:**

The Indiana Department of Education (IDOE) has developed a process for eligibility and earmarking for the most current year of School Improvement Grants (SIG), school year (SY) 2015-2016. This process ensures that there are segregation of duties related to all compliance requirements.

During the newest round of applications, all applications are reviewed multiple times by multiple reviewers. This includes:

- A first review by an individual utilizing the evaluation rubric to ensure that proposed expenditures are reasonable, allocable, and necessary and fit the purpose and intent of the SIG award.
- A second review by a SIG team member
- A phone call with school, LEA, and other stakeholders by an IDOE committee
- A final review by SIG team and SEA leadership, which includes a review of the final budgets and total dollars awarded according to Federal guidance.

Renewal applications, including final budgets and amounts awarded, are reviewed by at least two SIG team members. Award letters are drafted by a specialist and signed by a Director.

Amendments are reviewed by two members of the SIG team. A specialist conducts the initial review and prepares the approval packet. A second specialist or Director conducts the second review and signs off for approval. All approved documents are shared with the IDOE Fiscal team and posted publicly on the IDOE – SIG website. An amendment tracker tool tracks the progress and current status of amendments to ensure compliance of all steps of the process.

A final review and budgets ensure that at least 95% of funds are awarded directly to schools. This final review is conducted by an internal SIG committee that includes, at a minimum, the Coordinator and Director. Final approved budget amounts are shared with the SIG Fiscal team.

#### **Anticipated Completion Date:**

Completed September 2016.



DEPARTMENT OF EDUCATION

**Dr. Jennifer McCormick**  
Superintendent of Public Instruction

*Working Together for Student Success*

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-013 Subrecipient Monitoring; School Improvement Grants***

Contact Person Responsible for Corrective Action: Nathan Williamson, Director of School Improvement  
Contact Phone Number: 317-232-6671.

We concur with the finding.

#### **Description of Corrective Action Plan:**

The Division of Title Grants and Support will coordinate a federal grant tracker to include Title grant awards, along with the Office of Special Education, SIG, and the Office of School and Community Nutrition, to ensure the proper audit was received. This tracker will provide a comprehensive view of the total expended federal funding in order to maintain a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received. LEAs will indicate if they have expended more than \$750,000 total in federal funds to determine eligibility for a federal audit. A tracking system will be created to identify those LEAs that meet or exceed the \$750,000 threshold. The SEA will verify that subrecipients have been audited and have met the audit requirements when the federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

#### **Anticipated Completion Date:**

Process to be in place by July 1, 2017

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-014 Period of Performance; Special Education Cluster***

Contact Person Responsible for Corrective Action: Tracy Brown, Director of Accounting  
Contact Phone Number: 317-232-6974.

We concur with the finding.

#### **Description of Corrective Action Plan:**

Controller will notify the Budget Analyst to change the status of a project to "Reject online transactions" once the project period has ended. This status will provide the following message when attempts are made to charge expenses to the closed project: *The status of "Reject online transactions" for project 7000H027Axxxxx prevents additional transactions.* This will ensure that no transactions will be charged to a federal project outside the period of performance.

#### **Anticipated Completion Date:**

Process began in early 2017.

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-015 – SUBRECIPIENT MONITORING; Special Education***

Contact Person Responsible for Corrective Action: Pam Wright, Director, Office of Special Education  
Contact Phone Number: 317-232-6622.

We concur with the finding.

#### **Description of Corrective Action Plan:**

*Award Identification:* After the pertinent information is entered into the award letter by an employee of the Office of Special Education, a second reviewer will be assigned to verify the accuracy. He/she will enter his/her initials onto the tracking sheet in order to document the second approval.

*During Award Monitoring:* The first grant reviewer will enter the necessary information into the tracking sheet, and the second grant reviewer will verify the accuracy. He/she will enter his/her initials onto the tracking sheet in order to document the second approval.

*Audit Reports:* The Office of Special Education will add an assurance to all Part B, 611 applications in order to maintain a comprehensive listing of all subrecipients that qualified for an audit in accordance with OMB Circular A-133 or 2 CFR 200, Subpart F, to ensure the proper audit was received. LEAs will indicate if they have expended more than \$750,000 total in federal funds to determine eligibility for a federal audit. A tracking system will be created to identify those LEAs that meet or exceed the \$750,000 threshold. The SEA will verify that subrecipients have been audited and have met the audit requirements when the federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

#### **Anticipated Completion Date:**

Process will be in place by July 1, 2017



DEPARTMENT OF EDUCATION

**Dr. Jennifer McCormick**  
Superintendent of Public Instruction

*Working Together for Student Success*

## CORRECTIVE ACTION PLAN

### **FINDING 2016-016 - SPECIAL TESTS AND PROVISIONS - ACCESS TO FEDERAL FUNDS FOR NEW OR SIGNIFICANTLY EXPANDED CHARTER SCHOOLS; Special Education Cluster**

Contact Person Responsible for Corrective Action: Pam Wright, Director, Office of Special Education  
Contact Phone Number: 317-232-6622.

We concur with the finding.

#### **Description of Corrective Action Plan:**

After the Part B Grants' Supervisor calculates the allocations for the new charter schools, a second reviewer will verify the calculations for accuracy. He/she will initial the allocation spreadsheet for documentation purposes.

#### **Anticipated Completion Date:**

Process will be implemented effective immediately for the next calculation for Federal Fiscal year 2017.

## CORRECTIVE ACTION PLAN

### ***FINDING 2016-017 -LEVEL OF EFFORT AND EARMARKING; Special Education Cluster***

Contact Person Responsible for Corrective Action: Pam Wright, Director, Office of Special Education  
Contact Phone Number: 317-232-6622.

We concur with the finding.

#### **Description of Corrective Action Plan:**

After the Part B Grants' Supervisor enters the pertinent information into the tracking sheet for Level of Effort and Earmarking, a second reviewer will review the calculations for accuracy. He/she will initial the tracking sheet for documentation purposes.

#### **Anticipated Completion Date:**

Process will be in place by July 1, 2017



Eric J. Holcomb, Governor  
Mary Beth Bonaventura, Director

Indiana Department of Child Services  
Room E306 – MS47  
302 W. Washington Street  
Indianapolis, Indiana 46204-2738

317-234-KIDS  
FAX: 317-234-4497  
[www.in.gov/dcs](http://www.in.gov/dcs)

Child Support Hotline: 800-840-8757  
Child Abuse and Neglect Hotline: 800-800-5556

## CORRECTIVE ACTION PLAN

### **FINDING 2016-018 – CASH MANAGEMENT**

Contact Person Responsible for Corrective Action: John Mallers, Asst. Deputy Director, DCS CSB  
Financial Quality Assurance  
Contact Phone Number: (317) 232-0642

**Views of Responsible Official:** We concur with the finding.

**Description of Corrective Action Plan:** Specific rules have been communicated, and protocols and procedures have been implemented to monitor the cash management (cash basis accounting) procedures of sub-recipients by the CSB Financial Quality Assurance (FQA) Department.

Beginning in July 2017, CSB will revise the certification on the Monthly Expenditure Claim (MEC) and the Quarterly Incentive Expenditure Form (QIE) to include language emphasizing cash basis accounting. For the MEC, the last sentence of the certification will be amended (in bold below) to read as follows: *I also certify that the expenditures above are in accordance with federal, state, and county laws, regulation and policies pertaining to the Title IV-D program and have been paid by the County Auditor prior to submission for reimbursement on this form.* For the QIE, the certification will state: *I also certify that the expenditures above are in accordance with federal, state, and county laws, regulation and policies pertaining to the Title IV-D program and have been paid by the County Auditor prior to inclusion on this form.*

In addition to this, CSB has clearly set rules, which are included in the IV-D Expense Reporting and Reimbursement Complete Guide and reinforced to all county sub-recipient offices during trainings and presentations, which dictate that expenditures must be paid prior to submitting for reimbursement. This is based on the idea of cash basis accounting principles, which is communicated to all county offices using federal IV-D funds.

Within the Self-Guided Title IV-D Monthly Expense Claiming and Quarterly Incentive Expenditure Reporting PowerPoint (PPT), this concept is clearly defined. This PPT was distributed via webmail to all county sub-recipient offices in 2015, plus it is currently available for viewing and review on the CSR (the CSB's Web site accessible by all county sub-recipient offices). Further, the IV-D Expense Reporting and Reimbursement Complete Guide also outlines these principles and internal control methods in the section titled, *County Claims and Incentive Reporting*.



*Protecting our children, families and future*

Monitoring occurs both during the review of monthly expense claims/quarterly incentive balances, and during the FQA Reviews. For the former, if needed, the CSB FQA Department contacts the sub-recipient for additional information, explanation of expenditures, and potential corrections of their use of proper cash management procedures.

During FQA Reviews, the concept of only reporting actual expenditures is discussed in detail with each county's sub-recipient office. CSB obtains the ledgers of actual expenditures from the County Auditor's office and compares those ledger figures to the reported monthly claimed amounts for reimbursement and the reported quarterly incentive expenditures, as submitted by each county sub-recipient office. Additionally, both CSB's Financial Quality Assurance Plan and the on-site Financial Quality Assurance Questionnaire include specific questions for review with each county sub-recipient office to ensure cash basis accounting principles are being followed.

**Anticipated Completion Date:** Implementation of Certification: 07/31/2017

**FINDING 2016-019 – SUBRECIPIENT MONITORING**

Contact Person Responsible for Corrective Action: John Mallers, Asst. Deputy Director, DCS CSB Financial Quality Assurance  
Contact Phone Number: (317) 232-0642

**Views of Responsible Official:** We concur with the finding.

**Description of Corrective Action Plan:** CSB will continue to perform the following activities:

1. Specific protocols and procedures have been implemented to review and monitor the monthly expense claims of sub-recipients and also the quarterly incentive expenditures and incentive balances of sub-recipients. This included a review for reasonableness of the expenditures by the CSB Financial Quality Assurance (FQA) Department, and also for variances of these expenditures. If needed, the CSB FQA Department contacts the sub-recipient office for additional information, explanation of expenditures, and potential corrections.
2. The CSB FQA Department also monitors and performs a detailed review of county Cost Allocation Plans (CAP). All of these reviews are tracked in detailed spreadsheets that accompany written review procedures, and are also checked and signed off by both the Supervisor and Assistant Deputy Director of the CSB FQA Department.

In SFY 2016, CSB implemented Financial Quality Assurance Reviews (FQA Reviews) of sub-recipients. This involves a detailed review of a sub-recipient's ledgers, budgets, claims, and supporting documentation plus an on-site visit, which is subsequently conducted with the county Auditor, Clerk, Prosecuting Attorney, and IV-D Court as applicable. After the on-site review, specific recommendations will be given to each office as needed for compliance with federal rules. For these reviews, a detailed spreadsheet is maintained by the CSB FQA Department, which records all Review action taken with each county office plus the detailed recommendations given to each county office. The Supervisor and the Assistant Deputy Director of the FQA Department review and sign off on the entire spreadsheet to ensure the Reviews have been conducted and recommendations created. Further, the Deputy Director receives and responds to status reports from the Assistant Deputy Director to ensure the reviews are conducted in a timely manner and to also review the recommendations sent to sub-recipient offices.



Beginning in SFY 2017, CSB will implement a risk assessment system as part of its overall review of sub-recipients. This risk assessment system will be based the results of the monitoring of sub-recipients as described in (1) and (2) above, as well as the results of the FQA Review of each sub-recipient as described in the previous paragraph. In addition, the results of the sub-recipient's State Board of Accounts (SBOA) annual audit will be a factor in the risk assessment score, as well as the longevity of personnel in the sub-recipient offices. Sub-recipients will receive a score on each risk assessment factor indicating the expected likelihood of errors. These scores will be generated by FQA Field Auditors and reviewed/approved by both the Supervisor and Assistant Deputy Director. Risk assessment scores will be used to determine the level of review sub-recipients would require with future FQA Reviews. A low likelihood of errors might mean the next FQA Review is merely a desk review of their compliance with federal rules, whereas a high likelihood of errors could mean the sub-recipient's next FQA would be moved to the top of the schedule. With this system, the CSB FQA Department will focus attention on areas where problems are more likely to exist, thereby increasing overall compliance with federal rules.

In SFY 2015 and SFY 2016, CSB issued several guidance documents to all sub-recipients. Also, self-guided, interactive PowerPoint presentations were issued to assist sub-recipients with proper claiming procedures, and improvement of supporting documentation. Several supporting documentation forms were developed by CSB and sent to sub-recipients as options for them to use. Additionally, for SFY 2016, the IV-D Expenditure Portal was enhanced to better assist counties to properly submit claims and report incentive expenditures and balances, and the IV-D Expense Reporting and Reimbursement Complete Guide was updated to make it easier for the reader to locate information.

Finally, the CSB FQA Department reviews all SBOA audit findings of sub recipients as well as their responses and corrective action plans. Sub-recipients are contacted to ensure compliance with the corrective action plan, which is also required by CSB. A detailed spreadsheet was developed to manage these activities and resolutions. CSB has accessed Gateway to determine if a county was required to have a single audit based on the federal threshold and ensured those counties all have had an audit completed. This information is also captured on the spreadsheet. Secondary reviews of the spreadsheet are conducted by the Supervisor and the Assistant Deputy Director of the CSB FQA Department, both of whom sign off on the spreadsheet when the reviews have been verified. The Supervisor and the Assistant Deputy Director of the FQA Department also conduct periodic overall reviews of the entire spreadsheet and set review meetings with staff to ensure proper monitoring and action on the SBOA audit findings.

**Anticipated Completion Date:** Risk Assessment: 12/01/2018

**FINDING 2016-020 – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY**

Contact Person Responsible for Corrective Action: Clinton Bohm

Contact Phone Number: 317-234-5768

**Views of Responsible Official:** We concur with the finding.

**Description of Corrective Action Plan:** DCS will review detailed backup documentation. The backup documentation will be confirmed by a second person before beginning to create a journal to move expenses. Upon completing of the journal, a third party will ensure all documents are appropriate and match up.

**Anticipated Completion Date:** 12/31/2017



**FINDING 2016-021 – PERIOD OF PERFORMANCE**

Contact Person Responsible for Corrective Action: Clinton Bohm  
Contact Phone Number: 317-234-5768

**Views of Responsible Official:** We concur with the finding.

**Description of Corrective Action Plan:** DCS will review our KidTraks System and ensure that claiming and eligibility is correctly calculated. Additionally, DCS will work with FSSA on the language of the TANF state plan to make sure that appropriate services are included moving forward.

**Anticipated Completion Date:** 12/31/2017

---

(Signature)

---

(Title)

---

(Date)



*Protecting our children, families and future*



Eric Holcomb, Governor  
State of Indiana

**Indiana Family and Social Services Administration**  
402 W. WASHINGTON STREET, P.O. BOX 7083  
INDIANAPOLIS, IN 46207-7083

## CORRECTIVE ACTION PLAN

### **FINDING 2016-022** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: David Smalley  
Contact Phone Number: 317-232-2010

Views of Responsible Official: We concur with the finding

#### Description of Corrective Action Plan:

FSSA/Division of Family Resources is aware that this was a repeat finding from last year's review. FSSA/DFR would like to note though that since this current review was focused on SFY 2016, the corrective action taken in June 2016 would not have been reflected in cases pulled for SFY 2016 since there would not have been time for the corrective action to be reflected in cases. We would certainly anticipate that the actions taken last June and in the near future will impact the correct processing of TANF particularly in acquiring verification of relationships. As noted in the past finding, the following policy manual cite continues to be in place to assist our eligibility staff in correct processing of TANF eligibility in particular with relationship verification.

#### **Indiana Program Policy Manual**

##### **2420.05.05 Verification Of Relationship (C)**

Within the C category, the policy stated in this section only applies to ADCU and ADCR. It is the responsibility of the applicant/recipient to assist the eligibility worker to verify the degree of relationship between a child and a specified relative.

The relationship of a child to a relative listed in the previous section, except for an alleged father, is verified when the eligibility worker either:

Sees the child's birth certificate; or

Obtains verification from two of the sources listed below, when the birth certificate is not seen:

- Hospital records established at the time of birth (including a hospital issued birth certificate);
- Physician's records;
- Marriage records;
- Court records, including adoption records;
- Social Security Administration records;
- Church documents, such as baptismal certificates;
- Passport;
- Immigration records;
- Naturalization records;
- School records;
- Records of social agencies (including the Local Office); or



- Signed statement from an unrelated reliable person having specific knowledge about the relationship of the child to the specified relative.

As a result of this repeat finding, we will conduct a review of the training developed last year and update if necessary. Again this training session is devoted specifically to relationships and required verifications/documentation in order to support the eligibility decision. Included in this training was a review of the above noted section in the policy manual as a requirement as well as the necessary documentation that is required to be present in the case record information. The training was developed by our TANF policy staff and will be re-loaded into our Learning Management System (LMS). All eligibility staff will be required to take this training. The advantage of loading this training into LMS is that we can track completion. We will complete our re-review of this material and begin the process of re-loading into LMS.

In addition, our Quality Control section does review a sample of TANF cases monthly and does review for adequate verification of relationships. However, Quality Control does not currently cite this as an error but does provide as additional information to the local office. In addition, Quality Control does follow up on the additional information provided in order to determine if follow up action had been taken by the local office.

Anticipated Completion Date: Training to be completed by June 15, 2017

**FINDING 2016-023** (Auditor Assigned Reference Number)  
Contact Person Responsible for Corrective Action: David Smalley  
Contact Phone Number: 317-232-2010

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

This finding has two issues that must be addressed in terms of corrective action. The first is an interface issue with the Child Support ISETS system. There were several cases in which ISETS reflects that a non-cooperation notice was sent to ICES, however, ICES did not receive the notice. Thus, benefits were not discontinued or discontinued timely. We have reached out to ICES systems staff and are in the process of assessing the interface issue. There is yet to be a determination of whether the issue lies within the ICES system or whether it is an ISETS issue. If it is determined to be an ISETS issue, it would be more difficult for us to determine a timeline for action to be taken to address this issue. Should this be an ICES issue, we would move forward in determining an appropriate fix and timeline for such fix.

The additional finding for child support non-cooperation has to do with not taking timely action on discontinuance based on receipt of notice. DFR commits to reviewing our current change processing queue in order to re-prioritize these changes in order to ensure timely processing.

Anticipated Completion Date: DFR would request a period of 60 days in order to determine the issues relevant to the interface issues between ICES and ISETS. In terms of the case processing timeliness, we will review and adjust the change processing queue within the next 30 days.

**FINDING 2016-024 - EARMARKING**

Contact Person Responsible for Corrective Action: Theresa Koleszar  
Contact Phone Number: 317-232-1432

Views of Responsible Official: BRS acknowledges that the earmarking requirement to set aside 15% of federal funds for the provision of pre-employment transition services (pre-ets) was not met. However, BRS does not agree that the cause of the non-compliance was failure to track pre-ets expenses. BRS tracks pre-ets expenses through contract expenses and a special report run out of IRIS, the VR Case Management System. While BRS did earmark some funding for pre-ets in FFY16 (approximately 1/3 of the required amount), the program did not meet the 15% requirement. Pre-ets is a new federal requirement and BRS plans to identify additional fiscal resources in order to work toward full compliance with this earmarking requirement.

Description of Corrective Action Plan: BRS is identifying strategies to shift resources in order to increase the availability of funds for pre-ets; however, this is challenging due to limited fiscal resources. BRS will be receiving technical assistance from the Rehabilitation Services Administration (RSA) in April on the potential utilization of Third Party Cooperative Agreements (TPCA). Through a TPCA with a state or local public entity, BRS may be able to generate additional non-federal match dollars in order to draw more VR federal grant funds, directing those funds toward the earmarking requirement.

Anticipated Completion Date: BRS will be working over the next year to identify strategies for both increasing and shifting resources to increase the availability of funds for earmarking. BRS will demonstrate a substantial increase in the amount of funds earmarked pre-ets in FFY17, and is targeting full compliance with the 15% earmarking requirement for FFY18.

**FINDING 2016-025 - PERIOD OF PERFORMANCE**

Contact Person Responsible for Corrective Action: Theresa Koleszar  
Contact Phone Number: 317-232-1432

Views of Responsible Official: VR agrees with the finding.

Description of Corrective Action Plan: BRS is initiating a contract with Public Consulting Group (PCG) to implement a claims payment system for VR. The system is anticipated to go live before the end of calendar year 2017. It is anticipated that this system will address the challenges VR currently faces in processing approximately 60,000 claims annually in an efficient and timely manner. BRS expects that the system will result in a decrease in the number of lost claims, will reduce the need to backdate claims, and will increase responsibility on vendors to bill accurately and timely. In the interim, BRS will view all costs at the end of the FFY16 period of performance and determine whether charges were made to the grant for services outside of the period of performance. If charges were made to FFY16 in error, BRS will transfer those funds to the appropriate grant year.

Anticipated Completion Date: December 31, 2017

**FINDING 2016-026 - ELIGIBILITY**

Contact Person Responsible for Corrective Action: Theresa Koleszar  
Contact Phone Number: 317-232-1432

Views of Responsible Official: BRS acknowledges that eligibility determinations are not being processed within the 60-day required timeframe for all cases.

Description of Corrective Action Plan: BRS is experiencing a deficit in staffing capacity, and as a result has been unable to process cases in a timely manner, including ensuring eligibility determinations are completed within 60 days of the application date. BRS will be requesting approval from RSA, through a state plan amendment, to implement a process called 'Order of Selection.' A State VR agency is required to implement an order of selection when it anticipates that it will not have sufficient personnel or fiscal resources to fully serve all eligible individuals, in accordance with federal timeliness requirements. If approved, BRS will implement the order of selection and will prioritize individuals with the most significant disabilities to be served. Newly eligible individuals who are not determined to be an individual with a most significant disability will be deferred for services until such time that sufficient resources become available to serve them. Within the first year of implementation of the order of selection, BRS anticipates a reduction in caseload sizes for VR Counselors and possibly a reduced turnover rate, which is currently 56%. BRS will also be identifying strategies to build staffing capacity over the next couple of years.

Additionally, as BRS works to implement a new case management system over the next 18-24 months, additional efforts will be pursued to institute increased internal controls, which could include automatic alerts or 'tickler's, or other strategies depending on the functionality available in the new system.

Anticipated Completion Date: BRS will work toward improved timeliness of eligibility determinations and anticipates compliance with this requirement by July, 2018. The new case management system is anticipated to 'go live' by spring, 2019 and will include an enhanced mechanism for internal controls pertaining to timeliness of IPE development.

**FINDING 2016-027 - SPECIAL TEST & PROVISIONS - COMPLETION OF IPEs**

Contact Person Responsible for Corrective Action: Theresa Koleszar  
Contact Phone Number: 317-232-1432

Views of Responsible Official: BRS acknowledges that IPE's are not being processed within the 90-day required period for all cases. Regarding the finding pertaining to a lack of sufficient internal controls, BRS has provided additional information to the U.S. Department of Education to address the same finding from the prior A-133 audit. Email communication from U.S. Department of Education indicates the finding is likely resolved. BRS is awaiting official written notice and will share this documentation upon receipt.

Description of Corrective Action Plan: BRS is experiencing a deficit in staffing capacity, and as a result has been unable to process cases in a timely manner, including ensuring IPE's are completed within 90 days of eligibility. BRS will be requesting approval from RSA, through a state plan amendment, to implement a process called 'Order of Selection.' A State VR agency is required to implement an order of selection when it anticipates that it will not have sufficient personnel or fiscal resources to fully serve all eligible individuals, in accordance with federal timeliness requirements. If approved, BRS will implement the order of selection and will prioritize individuals with the most significant disabilities to be served. Newly eligible individuals who are not determined to be an individual with a most significant disability will be deferred for services until such time that sufficient resources become available to serve them. Within the first year of implementation of the order of selection, BRS anticipates a reduction in caseload sizes for VR Counselors and possibly a reduced turnover rate, which is currently 56%. BRS will also be identifying strategies to build staffing capacity over the next couple of years.

Additionally, while BRS does have internal controls in place to assist staff in identifying cases approaching the 90-day timeframe for IPE development, VR staff must take a proactive approach to obtaining this information. As BRS works to implement a new case management system over the next 18-24 months, additional efforts will be pursued to institute increased internal controls, which could include automatic alerts or 'tickler's, or other strategies depending on the functionality available in the new system.

Anticipated Completion Date: BRS will work toward improved timeliness of IPE development and anticipates compliance with this requirement by July, 2018. The new case management system is anticipated to 'go live' by spring, 2019 and will include an enhanced mechanism for internal controls pertaining to timeliness of IPE development.

**FINDING 2016-028 - PROCUREMENT AND SUSPENSION AND DEBARMENT**

Contact Person Responsible for Corrective Action: Theresa Koleszar  
Contact Phone Number: 317-232-1432

Views of Responsible Official: BRS acknowledges that it does not currently have a process in place to ensure vendors are not suspended or debarred. However the recommendation that VRS enter into a formal contract agreement with all 2,000+ vendors that provide VR services is unmanageable and unnecessary. Furthermore, the selection of vendors occurs through informed choice of the VR participant.

Description of Corrective Action Plan: BRS will add a new step in the process of registering vendors to include a review of the suspension and debarment listing online. BRS already has contracts in place with vendors for certain services, all of which followed a RFP process. This includes contracts for interpreting services and hearing aids and devices. Additionally, BRS has provider agreements with approximately 90 providers who carry out employment services, the largest area of spend for BRS. BRS has drafted a provider registration packet and application for vendors who provide services that are highly specialized and require specific certification, and occur under a unique arrangement with VR, such as Assistive Technology, home modifications, vehicle modifications, and small business consultation services, as a provider agreement is appropriate in these situations. Vendors who are not providing services under any type of unique arrangement, such as public universities who are simply billing VR as a funding source for tuition, will continue under the current process of issuing a purchase order to outline the terms of the service (i.e. funding amount, service dates, invoice requirements, etc.). It should also be noted that development of a written agreement does not guarantee that any entity will ever receiving authorization to provide a service, as vendors are selected based on informed choice of the VR participant.

Anticipated Completion Date: BRS will complete the vendor registration process for select vendors by January 30, 2018.

**FINDING 2016-029** – Matching, Level of Effort, Earmarking  
Contact Person Responsible for Corrective Action: Dennis Ailes  
Contact Phone Number: 317-232-7913

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: DMHA Policy and Procedure will be revised as follows:

- I. The Bureau Chief of Addiction Services will email to the Division of Mental Health and Addiction (DMHA) Director the Substance Abuse Prevention and Treatment Block Grant Application and Report, which includes the Expenditures Compliance Report, for his/her review and approval. The DMHA Assistant Director and Deputy Director – Addiction will be copied on the email.
- II. Upon completion of DMHA Director review, the Director shall direct through email:
  - A. To revise document and resubmit for review and approval; or,
  - B. To approve document for submission in federal electronic application system, currently WebBGAS.
- III. All four participants in this email shall save these emails for future reference confirming and documenting the DMHA Director approval to submit the Substance Abuse Prevention and Treatment Block Grant Application and Report.

Anticipated Completion Date: April 1, 2017

**FINDING 2016-030** (Auditor Assigned Reference Number)  
Contact Person Responsible for Corrective Action: David Smalley  
Contact Phone Number: 317-232-2010

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

The documentation was not available at the time of the auditor request, however since that time, we have been able to retrieve the documentation to support the numbers in the reports. We are working on a plan to ensure the reports are fully supported with detailed reports and the reports are maintained for audit.

Anticipated Completion Date: July 1, 2017

**FINDING 2016-031** (Auditor Assigned Reference Number)  
Contact Person Responsible for Corrective Action: David Smalley  
Contact Phone Number: 317-232-2010

Views of Responsible Official: We do concur with the finding

Description of Corrective Action Plan:

This finding is relevant to the need for EBT transactional information for the period of 7/1/2015 through 9/27/2015. For purposes of background information, DFR did transition to a new EBT vendor effective 9/27/2015. The new vendor Xerox does have all of the historical transactional data that had been transferred from the previous vendor, JPMorgan Chase. DFR chose not to have this historical data transferred to our data warehouse due to cost issues associated with the volume of data. That was with the understanding that should we need this data, we could access via the Xerox data warehouse. We have since found that there are some issues in accessing the data through Xerox – the data is certainly available but does take an extended period of time to collect based upon the high volume of transactions. We have pulled some data and will continue to obtain the necessary information.

Anticipated Completion Date: We anticipate receiving the data for the period of 7/1/2015 – 9/27/2015 within the next 30 days.

## FY 17 – STATUS OF CAFR AND SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

### CAFR

- There are 12 field examiners currently working on the audit of the FY 17 CAFR
- Assigned Hours for the audit of the CAFR is 5,500 hours. As of 9-22-17, we have attributed 1,848 hours to the audit of the CAFR, which is approximately 34% of the total hours.
- The audit opinion for the CAFR will be provided no later than 12-31-17.
- At this time, we have not concluded on any possible findings for the FY 2017 financial audit of the CAFR.

### SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

- We will be auditing 15 major programs for the FY 2017 supplemental audit of federal awards.
- We have started the audit of 10 of those major programs.
- There are 10 field examiners dedicated to the audit of federal awards and 12 that share responsibilities with the CAFR audit.
- The opinion and findings for the federal audit will be filed no later than 3-31-18.
- As of the date of this report, we have not concluded on any findings related to federal awards.
- Provided in your handouts is a summary of the federal programs we are auditing, the amount of time assigned to each, and the amount of time we have attributed to the audit as of the date of this presentation.

## DETAIL OF FEDERAL AUDIT PROGRAM STATUS

FEDERAL PROGRAM	BSHs		Time Billed	
	Started	Assigned	Through 9-22-17	% Completion
MEDICAID CLUSTER	Yes	1,875.00	138.75	7%
SNAP CLUSTER	Yes	337.5	29	9%
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	Yes	1,500.00	110.25	7%
SPECIAL EDUCATION CLUSTER	Yes	412.5	19.5	5%
CHILDREN'S HEALTH INSURANCE PROGRAM	Yes	750	0	0%
TANF CLUSTER	Yes	937.5	26.25	3%
CHILD SUPPORT ENFORCEMENT	Yes	412.5	16	4%
CDBG/STATE'S PROGRAM		337.5	0	0%
SCHOOL IMPROVEMENT GRANT		412.5	0	0%
TITLE I	Yes	337.5	21.5	6%
IMPROVING TEACHER QUALITY	Yes	337.5	13	4%
WIA/WIOA CLUSTER	Yes	750	2	0%
VOCATIONAL REHAB. GRANTS TO STATES		600	0	0%
WOMEN, INFANTS, AND CHILDREN (WIC)		337.5	0	0%
SUBSTANCE ABUSE BLOCK GRANT		412.5	0	0%
		<u>9,750.00</u>	<u>376.25</u>	<u>4%</u>



## ***FY 2016 Universities' Financial and Federal Audits***

University	Actual Hours*
Ball State	1946.3
Indiana State	1769.7
Indiana	2723.9
Ivy Tech	1723.6
Purdue	2203.1
Southern Indiana	1271.0
Vincennes	2021.8

\*Actual hours are combined financial and federal audit

## ***Update of FY 2016 Universities' Financial Audits***

University	Financial Statement Opinion Date	Type of Opinion
Ball State	October 26, 2016	Unmodified
Indiana State	October 26, 2016	Unmodified
Indiana	October 26, 2016	Unmodified
Ivy Tech	October 26, 2016	Unmodified
Purdue	October 12, 2016	Unmodified
Southern Indiana	October 26, 2016	Unmodified
Vincennes	October 13, 2016	Unmodified

- There were no findings related to the financial statements.

## Update of FY 2016 Supplemental Audit of Federal Awards

University	Federal A-133 Opinion Date	Type of Opinion
Ball State	February 27, 2017	Unmodified
Indiana State	February 23, 2017	Unmodified
Indiana	March 2, 2017	Unmodified
Ivy Tech	February 24, 2017	Unmodified
Purdue	February 22, 2017	Unmodified
Southern Indiana	December 19, 2016	Unmodified
Vincennes	February 20, 2017	Unmodified

### Federal Programs Audited in FY 2016

CFDA #	Title	Major Program
<b>84.007, 84.033, 84.038, 84.063, 84.268, 84.377, 84.408, 93.264, 93.342, 93.364, 93.925</b>	Student Financial Assistance Cluster	All Universities
<b>19.501</b>	Research and Development Cluster	Indiana State, Ivy Tech
<b>84.042, 84.044, 84.047, 84.217</b>	Public Diplomacy Programs for Afghanistan and Pakistan	Ball State
<b>93.638</b>	TRIO Cluster	Indiana State, Vincennes, Purdue
<b>84.048</b>	ACA – Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	Indiana
<b>10.500</b>	Career and Technical Education – Basic Grants to States	Ivy Tech
<b>84.002</b>	Cooperative Extension Service	Purdue
<b>93.044, 93.045, 93.053</b>	Adult Education – Basic Grants to States	Vincennes
	Aging Cluster	Vincennes

We reported 1 federal finding in 1 of the 7 Universities audited for FY 2016 Supplemental Audit of Federal Awards, the finding, and the corrective action plan prepared by the university to address the finding, is included in your handout. We have summarized the finding below:

**Detail of Findings By University and Major Program**

Indiana State	Major Program and Finding #	Requirement	Related Finding Reported in Fiscal Year 2015	Internal Control Non Compliance UnModified
	Student Financial Assistance Cluster 2016-001	Special Tests and Provision – Disbursements To or On Behalf of Students	X	X

## INDIANA STATE UNIVERSITY

### FINDING 2016-001 - SPECIAL TESTS AND PROVISIONS - DISBURSEMENTS TO OR ON BEHALF OF STUDENTS

Federal Agency: U.S. Department of Education

Federal Program: Federal Direct Student Loans; Federal Perkins Loan Program\_Federal Capital Contributions

CFDA Number: 84.268; 84.038

Federal Award Number and Year (or Other Identifying Number): FY16

A similar finding appeared in the immediate prior year report. The prior year finding number was 2015-003.

#### *Condition*

The University had not established an effective internal control system over one of the requirements related to the Special Test and Provision - Disbursements to and on Behalf of Students.

The Special Test and Provision - Disbursements to and on Behalf of Students required the University to ensure: disbursements were made within required time frames; notifications were sent to students and/or parents; eligibility was verified; and required documents were received and authorizations were obtained prior to disbursing funds.

The University did not send all the required notifications, including the right to cancel language, to students with multiple loan (i.e. subsidized, unsubsidized, or Perkins) disbursements made during the fiscal year.

#### *Context*

Twenty-three loan recipients out of twenty-five sampled had not received proper notification for 40 out of 88 (45%) disbursements credited to their accounts. Loan recipients were notified for the first disbursement of the loan (typically in the fall semester); however, notifications were not sent for subsequent disbursements between August 2015 and April 2016.

#### *Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).  
..."

34 CFR 668.165(a) states in part:

" . . . (2) Except in the case of a post-withdrawal disbursement made in accordance with § 668.22(a)(5), if an institution credits a student ledger account with Direct Loan, Federal Perkins Loan, or TEACH Grant program funds, the institution must notify the student or parent of -

- (i) The anticipated date and amount of the disbursement;
- (ii) The student's or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds or TEACH Grant proceeds returned to the Secretary; and
- (iii) The proceeds and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

(3) The institution must provide the notice described in paragraph (a)(2) of this section in writing -

- (i) No earlier than 30 days before, and no later than 30 days after, crediting the student's ledger account at the institution, if the institution obtains affirmative confirmation from the student under paragraph (a)(6)(i) of this section. . . ."

*Cause*

The University had not established a proper system of internal controls to prevent or detect errors in the computer programming relied upon to send all required notifications to students and/or parents.

The notifications were not generated by the computer system due to a coding error in the computer software.

*Effect*

The failure to establish effective internal controls enabled material noncompliance to go undetected.

Noncompliance of the grant agreement or the compliance requirement could have resulted in the loss of federal funds.

*Questioned Cost*

There were no questioned costs identified.

*Recommendation*

We recommended that the University implement effective internal controls related to the Special Test and Provision - Disbursements To and On Behalf of Students compliance requirement. Additionally, the University should ensure that appropriate notification is made to all federal loan recipients within the required time frame.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is a part of this report.



**Office of Student  
Financial Aid**

220 North 7th Street  
Terre Haute, Indiana 47809  
812-237-2215  
Fax 812-237-4330  
isu-finaid@mail.indstate.edu

## CORRECTIVE ACTION PLAN

### **FINDING 2016-001**

Contact Person Responsible for Corrective Action: Crystal Baker, Director of Financial Aid  
Contact Phone Number: 812-237-4232

#### Views of Responsible Official:

Indiana State University concurs with the finding. In spring 2016, the IN State Board of Accounts issued a finding for failing to provide notice to students and parents of loan disbursements for the 2014-2015 academic year. Shortly thereafter, process enhancements were made to generate emails to borrowers within one business day of their initial loan payment. However, a coding error prevented students from receiving additional loan notifications for subsequent disbursements. This was corrected in May 2016 for future disbursements.

ISU is committed to providing timely information to borrowers about disbursements and their ability to cancel all or a portion of these disbursements. In a good faith effort to comply with the intent of 34 CFR 668.165(a), an email notification was sent to all loan borrowers who received a federal loan during the 2015-2016 academic year listing their cumulative loan activity to date. This email was sent in July 2016 to over 7,300 unique recipients.

#### Description of Corrective Action Plan:

In order to ensure that all loan notifications are sent within the 30-day requirement, we have begun transitioning to using one synchronous system (Ellucian Banner) to both disburse loans as well as notify loan recipients. This will ensure that as the disbursement process occurs, borrowers will be notified simultaneously. In previous cycles, two systems (Banner and Argos) were utilized separately.

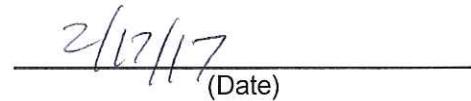
Anticipated Completion Date: Spring 2017



Crystal Baker  
(Signature)



Director of Financial Aid  
(Title)



2/17/17  
(Date)

# FY 17 – STATUS OF FINANCIAL AND SUPPLEMENTAL AUDIT OF FEDERAL AWARDS – UNIVERSITY AUDITS

## FINANCIAL AUDIT UPDATE

University	# of Assigned Field Examiners	Assigned Hours	Actual Hours To Date	Percent Complete
Ball State	3	960	183.3	19%
Indiana State	3	922.5	132.2	14%
Indiana	3	1207.5	466.4	39%
Ivy Tech	3	982.5	61.3	6%
Purdue	3	1380.0	723.9	52%
Southern Indiana	3	1147.5	237.6	31%
Vincennes	3	757.5	209.1	28%

- Actual hours as of September 18, 2017
- The audit opinions for each University will be provided no later than October 25, 2017.
- At this time, we have not concluded on any possible findings for the FY 2017 financial audits.

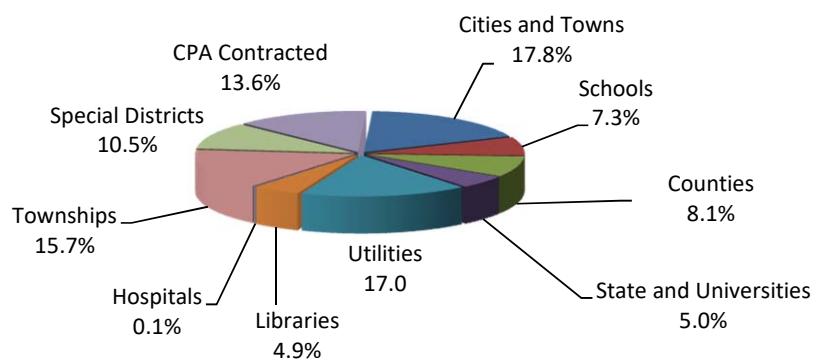
## SUPPLEMENTAL AUDIT OF FEDERAL AWARDS

University Major Program	# of Assigned Field Examiners	Assigned Hours	Actual Hours To Date	Percent Complete
Ball State Student Financial Aid Cluster Type B	3	960	-	-
Indiana State Student Financial Aid Cluster Special Education – Technical Assistance And Dissemination	3	817.5	-	-
Indiana Student Financial Aid Cluster Research and Development Veterans Affairs Individual Participation Agreements (IPAs)	3	1672.5	-	-
Ivy Tech Student Financial Aid Cluster Trade Adjustment Assistance Community College and Career Training (TAACCT)	3	967.5	12.98	1.3%

Grants				
Trio Cluster				
Type B				
Purdue				
Student Financial Aid Cluster	3	1500	-	-
Research and Development				
Health Centers Cluster				
Southern Indiana	2	487.5	-	-
Student Financial Aid Cluster				
Vincennes	3	1252.5	6.98	0.6%
Student Financial Aid Cluster				
Social Services Block Grant				

- Programs noted has "Type B" have not been determined.
- Number of field examiners assigned could fluctuate depending on the number of major programs that are determined.

## Reports Issued in FY 2017



	<u>Total</u>	<u>Percent</u>
Cities and Towns	400	17.8%
Schools	164	7.3%
Counties	182	8.1%
State and Universities	115	5.1%
Utilities	382	17.0%
Libraries	109	4.8%
Hospitals	2	0.1%
Townships	353	15.7%
Special Districts	237	10.5%
CPA Contracted	306	13.6%
Total	<u>2,250</u>	<u>100.0%</u>

## Investigations and Schedule of Charge Reports in Excess of \$10,000

We performed many examination and investigations that were the result of irregularities our staff discover during regular audits as well as information we receive from law enforcement agencies, officials and employees of the units we audit, as well as concerned citizens. Our reports are certified to the Office of the Indiana Attorney General for civil collections and to the local prosecutors when our findings involve potential criminal activity. In the last year we identified over \$1.5 million in misappropriated or misspent public funds.

Our field examiners work with the State Police, FBI, local law enforcement, Office of the Indiana Attorney General, US Attorney's Office, local prosecutors and other State and Federal agencies during these investigations to see that those who misappropriate or misspend public funds are held accountable. Regular meetings are held with these agencies to discuss ongoing and potential new cases, as well as any trends that are occurring.

The majority of the field examiners that work on investigations are our more experienced staff. In addition to the investigations they also staff our resource center tables' at all local government training conferences. The resource center tables offer our local officials an opportunity to ask our field examiners questions they may have on a personal one on one basis. In addition to the resource tables, these field examiners also provide guidance and technical assistance to officials in the field; especially some of the newer or newly elected officials. This helps to ensure that these officials, many of whom have no formalized training in accounting, get off on the right foot so that they may best serve their taxpayers.

We have completed the process of having our investigative staff become Certified Fraud Examiners by successfully completing the 4-part exam given by the Association of Certified Fraud Examiners (ACFE). The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. During the year, 41 of our staff, including all of our investigators, obtained the CFE designation. This certification and being associated with the ACFE will increase our ability to perform fraud audits and further ensure that public monies are being properly spent.

### CHARGE REPORTS IN EXCESS OF \$10,000

Unit Name	Report Number	Date Certified	Amount Certified
TOWN OF CLOVERDALE	B47089	10-28-16	\$ 10,513.08
TOWN OF MICHIANA SHORES	B47384	12-29-16	11,674.95
LIBERTY TWP	B47021	10-12-16	15,279.88
GRANT COUNTY	B48096	05-09-17	17,274.17
WASHINGTON TWP	B47829	03-15-17	18,690.18
MIDDLEBURY COMMUNITY SCHOOLS	B47524	01-13-17	19,282.03
ROSS TWP	B47714	02-21-17	29,050.54
TOWN OF WARREN PARK	B48309	06-28-17	30,734.79
LOGANSPORT CASS COUNTY AIRPORT AUTHORITY	B48307	06-27-17	34,185.65
BLACK TWP	B47793	03-13-17	51,088.80
OHIO TWP	B47687	02-10-17	53,328.39
TOWN OF BUNKER HILL	B48285	06-21-17	73,424.07
TIPPECANOE TWP	B47565	01-23-17	148,513.14
CITY OF LAWRENCEBURG	B47390	12-29-16	274,782.60
TIPPECANOE COUNTY	B47577	01-26-17	338,585.62
		TOTAL	\$ 1,126,407.89



PEER REVIEW REPORT  
October 23, 2015

Mr. Paul Joyce, CPA  
State Examiner  
Indiana State Board of Accounts  
302 W. Washington Street, Room E418  
Indianapolis, Indiana 46204

Dear Mr. Joyce:

We have reviewed the system of quality control of the Indiana State Board of Accounts (the Office) in effect for the period October 1, 2014 through September 30, 2015. A system of quality control encompasses the Office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the Office. Our responsibility is to express an opinion on the design of the system and the Office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the Office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the Office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the Office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore, it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Indiana State Board of Accounts in effect for the period October 1, 2014 through September 30, 2015 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The Indiana State Board of Accounts has received a peer review rating of *pass*.

Denise H. Olive, MBA, CPA  
Team Leader  
National State Auditors Association  
External Peer Review Team

Donna Cullen, CPA, CGMA  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team



## **Lack of Accountability and Transparency of Proceeds from Sale of Hospital Once Transferred to Foundation**

### **Donation of Proceeds from Sale of Hospital - \$100,000,000**

**Facts.** Floyd County sold their hospital in 2016 for \$100,000,000 at closing and an additional \$61,000,000 to be paid over ten years starting in 2017. Of the amount received at closing, Floyd County donated \$70,000,000 to the Community Foundation of Southern Indiana as a permanent endowment as described in IC 36-1-14-1. The county intends to add to the endowment from the future payments under the sale agreement, another \$51,000,000.

Although the foundation was required to file an Entity Annual Report (E-1) under IC 5-11-1-4 for the year of transfer, no additional reporting is required in subsequent years. Therefore, accountability for the \$70,000,000 and any future payments is not available to the public after the year of transfer.

**Applicable Statute.** IC 36-1-14-1 Donation of Proceeds of Sale of Utility, Facility, or Gift

#### **Concerns.**

- **No Access to Funds.** In following this statute, the county has relinquished control over \$70,000,000 of the county's funds. Unless the Community Foundation loses its status as charitable organization, is liquidated or violates the endowment fund agreement, the county has no access to the funds for any purpose. Even in the event of an emergency such as a natural disaster affecting county assets or services, the county may not use the proceeds from the sale and would possibly have to raise the tax rate to cover the costs resulting from the emergency.
- **Reporting of Public Funds.** Funds transferred to the charitable foundation are not accounted for on funds ledger or annual financial report of the county. The charitable foundation is not required to provide any public reports or annual financial reports. The charitable foundation is not required to obtain an audit or to be audited by the state board of accounts.
- **Investment of Funds.** The County retains no control over how the money in the endowment fund may be invested. Investment of the funds is at the discretion of the foundation's board of directors. The agreement between the county and the foundation states that the endowment fund money may be invested in uninsured securities and is subject to investment risks and loss of value of the fund.
- **Security of Funds.** The County has no control over the safeguarding of the fund. The foundation has sole responsibility to provide protection from theft or misuse. The fund is not insured. Neither the statute nor the endowment agreement contain any penalties or recourse in the event of loss.

**Alternative Indiana Code Language:** Accountability and transparency for the donation of capital asset proceeds may be increased by the following alternative Indiana Code language:

**IC 36-1-14-1** The foundation must file an annual financial report pursuant to IC 5-11-4-1 with the state examiner for each year that the foundation holds funds received under this section. The annual

**financial report must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7.**

**IC 36-1-14-1** The foundation must be audited annually by an independent third party auditor **and must submit the audit to the State Board of Accounts within three months after completion. The state board of accounts may at any time conduct an audit of the funds received under this section.**

**IC 36-1-14-1(c)** Notwithstanding IC 8-1.5-2-6(d), a unit may donate the proceeds from the sale of a utility or facility or from a grant, a gift, a donation, an endowment, a bequest, a trust, or gaming revenue to a foundation under the following conditions:

- (1) The foundation is a charitable nonprofit community foundation.
- (2) The foundation retains all rights to the donation, ~~including investment powers.~~
- (3) The foundation agrees to do the following:
  - (A) Hold the donation as a permanent endowment.
  - (B) Invest funds received under this section in accordance with IC 5-13-9.**

(\_) Distribute the income from the donation only to the unit as directed by resolution of the fiscal body of the unit.

(\_) Return the donation to the general fund of the unit if the foundation: (i) loses the foundation's status as a public charitable organization; (ii) is liquidated; or (iii) violates any condition of the endowment set by the fiscal body of the unit.

## **Donation of Proceeds from Sale of Hospital - \$157,000,000**

**Facts.** Porter County sold their hospital in 2016 and under IC 36-1-14-3 and transferred \$157,000,000 to a charitable nonprofit foundation, as allowed by statute. Although the foundation was required to file an Entity Annual Report (E-1) under IC 5-11-1-4 for the year of transfer, no additional reporting is required in subsequent year unless disbursements from the fund exceed 50% of the disbursements for the foundation. Therefore, accountability for the \$157,000,000 is not available to the public after the year of transfer.

**Applicable Statute.** IC 36-1-14-3 Investment of Proceeds from Certain Capital Assets

**Concerns.** Funds transferred to the charitable foundation are not accounted for on funds ledger or annual financial report of the county. The charitable foundation is not required to provide any public reports or annual financial reports. The investment advisor is required to provide quarterly reports to the board of trustees. The foundation is required to obtain an audit by an independent third party, but that report is not subject to review by the State Board of Accounts.

**Alternative Indiana Code Language:** Accountability and transparency for the donation of capital asset proceeds may be increased by the following alternative Indiana Code language:

**IC 36-1-14-3** **The foundation must file an annual financial report for the funds received from the sale of a capital asset under this section with the state examiner for each year that the foundation holds the funds. The annual financial report must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7.**

IC 36-1-14-3(g)(5) The foundation must be audited annually by an independent third party auditor and must submit the audit to the State Board of Accounts within three months after completion. The state board of accounts may at any time conduct an audit of the funds received under this section.

## **Donation of Funds to Build and Operate Baseball Stadium - \$2,300,000**

**Facts.** As part of the sale agreement for the sale of the Floyd County Hospital, an agreement was reached that the transferee would contribute \$2,300,000 to the New Albany Township Little League towards the construction and development of baseball and softball fields in the Kevin Hammersmith Memorial Park. A condition of the contribution was that the transferee would have the right to name the fields or have its name displayed in a prominent manner with regard to the fields.

Kevin Hammersmith Memorial Park is a park being created by Floyd County on county-owned land. The county has signed an agreement with the New Albany Township Little League to sell parcels within the park on which the Little League will build six baseball fields. The total selling price is \$20,992 per acre based on the purchase price by the county of 38.236 acres for \$800,000. The purchase price will be paid over a period of fifty years, as follows: the Little League will pay \$500 per year for the first 10 years, \$2000 per year for years 11-30; \$3000 per year for years 31-40 and \$4000 per year for years 41-50 to the county.

There is no written agreement between Floyd County and the New Albany Township Little League regarding the use of the \$2,300,000 donation.

**Applicable Statute.** IC 36-10-2-5: "A unit may establish, aid, maintain, and operate neighborhood centers, community centers, civic centers, convention centers, auditoriums, arenas, and stadiums."

**Concerns.** There is no control or oversight of the use of the \$2,300,000 donation. Although the donation was made by Baptist Health (transferee) directly to the New Albany Little League, the fact that it was part of the purchase agreement for the hospital indicates that it had some impact on the transfer of the Floyd County Hospital to Baptist Health and to the purchase price.

**Alternative Indiana Code Language:** A unit may establish, aid, maintain, and operate neighborhood centers, community centers, civic centers, convention centers, auditoriums, arenas, and stadiums if the amount and purpose of the donation is described in a written contract between the unit and the organization.



## Delinquent Property Tax Penalties

### Application of 5% vs. 10% Penalty

**Facts.** If an installment of property tax is not completely paid on or before the due date, a penalty is added in the year of initial delinquency. The penalty is either five percent (5%) or ten percent (10%).

**Applicable Statute:** IC 6-1.1-37-10

**Concerns:** Taxpayers have questioned when the 5% versus the 10% penalty should be applied as follows:

- If a portion of the delinquent taxes are paid in the 30 day period, is the 5% penalty applied to that portion and 10% applied to the delinquent taxes paid outside of the 30 day period?

Or

- If the delinquent tax is not completely paid in the 30 day period, is the 5% no longer applicable to any of the delinquent tax and so 10% is applied to the whole delinquent tax, both the portion paid in the 30 day period and the portion paid outside of the 30 day period?

The taxpayers would like the first scenario, especially when considered with the order of payment application, which is discussed next.

**SBOA position:** All the conditions must be met in order for the 5% to be applicable to any of the delinquent tax principal. This includes that installment of taxes must be completely paid in the 30 day period in order to be eligible for the 5% penalty.

According to the 2006 Fiscal Impact Statement SB 355, *Explanation of Local Expenditures*, "Late Payment Penalties: Current law provides that if an installment of property taxes is not completely paid on or before the due date, a 10% penalty is added to the unpaid portion in the year of the initial delinquency. The bill provides that if full payment of a property tax installment is made within 30 days after the due date, the penalty is 5%."

**Alternative Indiana Code Language.** Statute could be amended to provide for application of the 5% penalty to that portion of delinquent installment that is paid in the 30 day period.

"IC 6-1.1-37-10 Penalties for delinquent taxes; amount; when payments considered to be made

Sec. 10. (a) Except as provided in section 10.7 of this chapter, if an installment of property taxes is not completely paid on or before the due date, a penalty shall be added to the unpaid portion in the year of the initial delinquency. The penalty is equal to an amount determined as follows:

(1) If:

(A) an installment **or portion** of real property taxes is completely paid on or before the date thirty (30) days after the due date; and

(B) the taxpayer is not liable for delinquent property taxes first due and payable in a previous installment for the same parcel;

the amount of the penalty is equal to five percent (5%) of the amount of delinquent taxes **paid in the 30 day period.**

(2) If:

(A) an installment **or portion** of personal property taxes is **completely** paid on or before the date thirty (30) days after the due date; and

(B) the taxpayer is not liable for delinquent property taxes first due and payable in a previous installment for a personal property tax return for property in the same taxing district;

the amount of the penalty is equal to five percent (5%) of the amount of delinquent taxes **paid in the 30 day period.**

(3) **The amount of the penalty is equal to ten percent (10%) of any amount of delinquent taxes referred to in subdivision (1) or (2) not paid in the 30 day period. If subdivision (1) or (2) does not apply, the amount of the penalty is equal to ten percent (10%) of the amount of delinquent taxes.”**

## **Application of Payment**

**Facts.** The statute is silent on the order of application of payment of property tax regarding principal versus penalty. Each county determines the order of payment based on that particular county's policy. Most counties apply the penalty first.

**Applicable Statute:** IC 6-1.1-37-10

**Concern.** Relying on local policy to determine the order of application of payment has resulted in a perception that taxpayer property tax payments are not consistently applied throughout the state. It also heightens the concern of when the 5% vs 10% penalty is applied.

**Scenario:** Person mails complete property taxes in late but received within the 30 day window. In most counties the payment is first applied to the 5% penalty and the rest to the installment. Installment is now not completely paid. At the end of the 30 day period the county system will now apply an additional 5% penalty to the whole installment as the whole installment was delinquent and not completely paid (due to the application policy) in the 30 day period.

**Illustration:** Installment due May 10 of \$100, postmark date May 11, received May 13. \$5 penalty owed. Payment applied first to \$5 and \$95 to tax principal. No further payment received within 30 day window. On 31<sup>st</sup> day past due date system applies additional 5% to entire \$100 so total owed is \$10...\$5 tax principal and \$5 penalty.

**Alternative Indiana Code Language.** The statute could provide for the payment application order.

“IC 6-1.1-37-10 Penalties for delinquent taxes; amount; when payments considered to be made

Sec. 10. (a) Except as provided in section 10.7 of this chapter, if an installment of property taxes is not completely paid on or before the due date, a penalty shall be added to the unpaid portion in the year of the initial delinquency. The penalty is equal to an amount determined as follows:

(1) If:

(A) an installment of real property taxes is completely paid on or before the date thirty (30) days after the due date; and

(B) the taxpayer is not liable for delinquent property taxes first due and payable in a previous installment for the same parcel **or not liable for previous penalty owed for the same parcel;**

the amount of the penalty is equal to five percent (5%) of the amount of delinquent taxes.

(2) If:

(A) an installment of personal property taxes is completely paid on or before the date thirty (30) days after the due date; and

(B) the taxpayer is not liable for delinquent property taxes first due and payable in a previous installment for a personal property tax return for property in the same taxing district **or not liable for previous penalty owed on the aforementioned installment;**

the amount of the penalty is equal to five percent (5%) of the amount of delinquent taxes.

(3) If subdivision (1) or (2) does not apply, the amount of the penalty is equal to ten percent (10%) of the amount of delinquent taxes....

**(d) Payments received are applied to the oldest installment of tax amounts and associated penalties first.” [This is a new subsection to be inserted after IC 6-1.1-37-10(c) and before the current subsection (d)]**

**Caution:** Our understanding of why the penalty is applied first by officials is their concern that penalties be collected and that owed penalties not be the cause for property being put up for tax sale.

Statutory application order could be reversed so penalty is applied first as is current practice. However, this would not address taxpayers' concerns of perceived unfairness of the 5% vs. 10% penalty application without a corresponding change to the portion of the statute that provides the criteria of when to apply these penalties as we have previously presented.

**Combined Alternative Indiana Code Language:** Both of the aforementioned Indiana Code amendments could be combined for amendment to address the various concerns presented.

**State Board of Accounts (SBOA) View:** SBOA seeks clarification for order of application of installment amounts received. This will provide for consistent application of the statute by each county, clear understanding of the process by the taxpayer, and uniform audit expectation for SBOA.

SBOA does not have an opinion regarding the application of the 5% vs. 10% criteria or the order of the application of installment amounts received as we respectfully recognize these as legislative policy decisions.



# Audit Charges and Findings Related to Local Official Compensation

## Compensation of Elected Official Tied to Hours Reported as Worked

**Facts.** For compensation purposes, an elected position is often defined at the local level as a part-time position. Also, compensation is often based on an hourly rate, limiting the compensation of the elected official to actual hours worked. *Should compensation for elected officials be based on the position or based on the actual work performed? If a locally elected official desires to earn accrued leave, should the official be required to keep time records?*

**Applicable Statutes.** IC 36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10

**Concerns.** In recent years, the compensation of locally elected officials, especially clerk treasurers, has started to shift from payment for holding the elected position to payment based on the number of hours worked. If compensation is based on an hourly rate or part-time status, the compensation of the elected official becomes limited to actual hours worked. In addition, payment based on an hourly rate causes the total compensation paid for the year to fluctuate between years, which may result in an unallowable reduction in salary for city and town officials. Clarification of the basis for payment would provide a consistent framework for local officials and the State Board of Accounts to potentially curtail the number of findings and the number of charges against locally elected officials for compensation issues.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### Background Information

The basis for compensation of a locally elected official is not addressed specifically in the compensation statutes for cities, towns, counties, or townships. In practice, some locally elected officials are paid for holding the position, usually through a set weekly, biweekly, monthly, or annual amount; no documentation of time worked is required and no accrued leave is earned. Other locally elected officials are paid by the hour; in these cases, officials are required to submit documentation for hours worked; leave time may be accrued depending on the benefits offered. Other elected officials are designated as part time or full time, which still requires documentation of time worked through an employee service record. The designation of part time versus full time also may affect the type of benefits received.

### Audit Position

It is our audit position that elected officials should be paid for holding the elected position; no documentation of time worked is required and no leave time is earned. The elected official is responsible for ensuring that the statutory duties of his or her office are fulfilled. There is no statutory requirement that an elected official be physically present at a set location for a set amount of time to fulfill these duties. Rather, the elected official holds the mantel of that office and resulting duties at all times.

If an elected official chooses to earn leave time in accordance with the local government's policies, we have taken the audit position that time worked, leave earned and leave used by the official must be documented through the employee service record.

### Examples

A clerk treasurer was criminally charged with theft and official misconduct for inflating the number of hours worked on her time record. In this case, the clerk treasurer was paid by the hour.

A clerk treasurer submitted information of time worked on the employee service record in order to earn leave time. During the term, the clerk treasurer stopped submitting information on the employee service record, but continued to earn leave time. The clerk treasurer was required to pay back the accrued leave time.

A clerk treasurer faced accusations that she was not showing up for work while she was collecting a paycheck from taxpayers. In this case, the clerk treasurer was paid annual salary.

*Example – Audit Report B47172 – Town of Cynthiana.* In Audit Report B47172 on the Town of Cynthiana, SBOA charged the clerk treasurer for an increase in salary during the year for which it was fixed (2014) in the amount of \$15,216.72. According to the official response in the report, the clerk treasurer went from being available “part time” to “full time” and the council determined to compensate her for the increase in availability.

## **Compensation and Employee Benefits**

**Facts.** The State Board of Accounts encounters many questions from local officials regarding the definition of compensation. For example, are employee benefits included in the definition of compensation, and if so, does an increase or decrease in those benefits violate the requirement that an elected official’s compensation may not be changed in the year for which it is fixed? Additionally for cities and towns, does a decrease in benefits violate the requirement that a city or town officer’s compensation may not be reduced below that of the previous year? The State Board of Accounts has also written a number of audit findings related to the compensation of local officials.

**Applicable Statutes.** IC 36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10

**Concerns.** Many changes have occurred in recent years regarding common types of compensation and benefits without the same updating of applicable statutes. Update and clarification in statute of issues found in recent audits regarding compensation would provide a consistent framework for local officials and the State Board of Accounts to potentially curtail the number of findings subject to HEA 1031.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### **Background Information**

Employee benefits such as health insurance or Health Savings Account (HSA) employer contributions are not addressed specifically in the compensation statutes for cities, towns, counties, or townships, other than the town waiver of compensation statute. County compensation statutes do not contain a definition of compensation. Township statutes do not refer to compensation, but instead refer to salary, wages, rates of pay, and other remuneration.

Compensation for elected officials is defined in statute, case law and attorney general opinions, as follows:

The statutory definitions contained in the city and town statutes are as follows:

IC 36-4-7-2 (Cities) "As used in this section, "compensation" means the total of all money paid to an elected city officer for performing duties as a city officer, regardless of the source of funds from which the money is paid."

IC 36-5-3-2 (Towns) "As used in this section, "compensation" means the total of all money paid to an elected town officer for performing duties as a town officer, regardless of the source of funds from which the money is paid."

IC 36-5-3-6 (Waiver of Compensation – Towns) "As used in this section, "compensation" means the total of all money paid to an elected town officer for performing duties as a town officer, regardless of the source of funds from which the money is paid. The term includes all employee benefits paid to a town officer, including life insurance, health insurance, disability insurance, retirement benefits, and pension benefits."

Indiana case law has developed definitions of compensation. In *Hilligoss et al. v. LaDow, as Mayor of the City of Kokomo, et al.* 368 N.E. 2d 1365 (Ind. Ct. App. 1977), the court defined compensation to encompass any form of payment for services, which may include fringe benefits such as health insurance or pension payments. In *Montalvo v. State ex rel. Zoeller*, 27 N.E.3d 795 (Ind. Ct. App., 2015), (*Montalvo*), the court determined that insurance premiums were considered compensation for purposes of IC 36-12-2 (library statutes) which requires a library board to serve without compensation. (Library compensation is not the subject this document, but we have relied on the court decision to clarify the definition of compensation where no statutory definition is available.)

The Indiana Attorney General opined on the definition of compensation in *Official Opinion 2008-2*:

"As previously noted, it is generally assumed that a statutory restriction against diminishing an officer's fixed compensation is used to promote certainty of the valuable perquisites of an office and to deter any improper influence over an officer. Therefore, it is likely that the legislature intended the term 'compensation,' in this instance to include all forms of salary and fringe benefits."

If compensation is to include employee benefits, *does a fluctuation in the type of benefits offered or the amount paid for benefits constitute a change in an elected official's compensation?* The compensation statutes for all elected officials contain similar language that the compensation of an elected official may not be changed in the year for which it is fixed. Cities and towns statutes contain the further requirement that compensation may not be reduced below the amount fixed for the previous year.

The most common questions revolve around health insurance premiums and Health Savings Account (HSA) employer contributions.

#### Audit Positions and Examples

##### **Insurance Premiums**

Insurance premiums often change mid-year as a result of economic factors, changes in plans, qualifying events, etc. Questions include:

*Is this increase in premium to be considered an increase in compensation?*

*Similarly, if a unit of government establishes a health insurance plan mid-year, does the elected official need to wait until the following year to receive the benefit?*

We have not taken audit exception to an increase or decrease in premiums based on economic factors, changes in plans, qualifying events, etc., for those employees who are currently on the plan. However, we have taken audit exception to an initial offering of a plan to an elected officer when the initial offering was made during the year for which compensation was fixed.

*Example – Audit Report B47172 – Town of Cynthiana.* In Audit Report B47172 for the Town of Cynthiana, we took audit exception to the payment of insurance premiums for the clerk treasurer when the town decided mid-year to pay health insurance premiums for the clerk treasurer.

*Example.* Through the investigation of a prosecutor, a clerk treasurer was criminally charged with official misconduct and insurance fraud for paying her health insurance premiums after the health insurance policy had been cancelled by the town for all employees except utility employees. *Would the cancellation of the health insurance plan constitute a reduction in the compensation for the clerk treasurer?*

#### **HSA Contributions**

Based on the current statutes, it is our audit position that elected officials may not receive an increase in HSA contributions during the budget year since it would increase the compensation of the elected official during the year for which it was fixed.

*Example.* Officials decided mid-year to increase the compensation of all elected officials by increasing employer HSA contributions. It is our position that the mid-year HSA increase must be repaid.

#### **Opt-out benefits**

Units of government may offer different benefit options to employees. For example, the employee may choose to be covered by the unit's health insurance or choose to receive an opt-out payment. Due to a change in circumstances, it is foreseeable that an employee may need to change the option chosen during the year for which it is fixed. *Would such a change violate the requirement that an elected officer's compensation may not be changed in the year for which it is fixed? Further, for cities and towns, does a change in the opt-out provision affect the requirement that a city or town officer's compensation not be reduced below that of the previous year – either during the current official's term or when a change in officials is involved?*

*Example.* A clerk treasurer was given the opportunity to participate in the town's health insurance plan or to receive an opt-out payment. Initially the clerk treasurer chose the opt-out payment which was received for several years. In fact, the opt-out payment amount was included in her hourly rate of compensation so it could be spread throughout the year. When the clerk treasurer later chose to take part in the town's health insurance plan mid-year due to a qualifying event, her compensation was not lowered by the opt-out payment amount since it was included in her hourly rate. It is our audit position that the compensation of the clerk treasurer may not be reduced.

#### **Alternative Indiana Code Language.**

1. If the legislature desires to define compensation uniformly for all local units and exclude certain fringe benefits, the following language may be considered:

**NEW SECTION IC 36-1-2-\_\_\_\_\_**

**(a) "Compensation" means the total of all money paid to, or on behalf of, an elected officer for performing duties as an elected officer, regardless of the source of funds from which the money is paid.**

**(b) For purposes of determining an increase or decrease in the compensation of an elected officer pursuant to IC 36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10, the following items shall be excluded from the definition of compensation:**

- a. Payment of insurance premiums;**
- b. Payments in recognition of longevity, professional certifications, and educational advancements which are separately identified on a salary ordinance or resolution; and**
- c. Payments of stipend or per diem allowed by statute.**

*Additional Comments:*

*If this language were used, the township statute would need to be amended to refer to compensation rather than salary and wages.*

*This language would clarify the issue with health insurance premiums, longevity pay, professional certifications, educational advancements, stipends, and per diem, but may not address any other types of recognition or benefits which may be offered, for example tuition reimbursement.*

*Mid-year increases for changes in responsibilities, bonuses, HSA Employer Contributions, Opt-Out Payments, etc. would still be an audit exception.*

2. If the legislature desires to define compensation uniformly for all local units and include fringe benefits, the following language may be considered:

**NEW SECTION IC 36-1-2-\_\_\_\_\_ "Compensation" means the total of all money paid to an elected officer for performing duties as an elected officer, regardless of the source of funds from which the money is paid. The term includes all employee benefits paid to an elected public officer, including life insurance, health insurance, disability insurance, retirement benefits, pension benefits, and any other benefit identified in the salary ordinance or resolution."**

## **Reduced Compensation**

**Facts.** The State Board of Accounts receives many questions on whether the compensation of an elected official may ever be reduced during a term of office, or reduced below that of the previous year. For example, *may the compensation of an elected official ever be reduced during a term of office, or reduced below that of the previous year? May the compensation of a newly elected or appointed official be less than that of the previous official?*

**Applicable Statutes.** IC 36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10

**Concerns.** Update and clarification in statute of issues found in recent audits regarding the ability of local officials to reduce compensation would provide a consistent framework for local officials and the State Board of Accounts to potentially curtail the number of findings subject to P.L. 176-2017.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### **Background Information**

The compensation statutes for each unit type address whether a reduction in compensation is permitted, and if so, under what circumstances. Each unit type has different provisions.

Unit Type	Reduction of Compensation in Subsequent Year Permitted
Cities	No
Towns	No
Counties	Yes
Townships	Limited

### **Cities and Towns**

According to IC 36-4-7-2 and IC 36-5-3-2 respectively, the compensation of a city or town elected officer may not be changed in the year for which it is fixed nor reduced below that of the previous year. The statutes do not contain any exceptions for newly elected or appointed officers; the compensation for an elected city or town officer may never be reduced.

Attorney General Official Opinion 2004-9 provides a history of the 1981 amendment to the cities and town statute and concludes: "In reviewing the statutory language of Indiana Code section 36-4-7-2, in light of its history of legislative amendments, it is my opinion that the salary of the local clerk treasurer may not be reduced. The compensation of a city officer may not be reduced or increased in the year fixed, nor may it ever be reduced to less than the salary of the prior year, regardless of the timing."

### **Counties**

According to IC 36-2-5-13, the compensation of an elected county officer may not be changed in the year for which it is fixed. The statute specifically addresses newly elected officials by stating that the year in which a newly elected county officer takes office, the county fiscal body may at any time change

the compensation of the person holding the county office for that year if the county officer requests the compensation change and the county fiscal body votes to approve the change.

The statute does not address or prohibit the reduction of compensation for an elected office if the reduction is made during the budget process in the immediately preceding year.

#### Townships

IC 36-6-6 does not refer to the “compensation” of elected township officers, but refers to “salaries; wages; rates of hourly pay; and remuneration other than statutory allowances.” According to IC 36-6-6-10(c), a township legislative body may reduce the salary of an elected official, except

1. The township legislative body may not alter the salaries of elected officers during the fiscal year for which they are fixed.
2. An official is entitled to a salary that is not less than the salary fixed for the first year of the term in office that immediately preceded the current term of office (unless in a year in which there is not an election of members to the township legislative body, the township legislative body may vote to reduce the salaries of the members of the township legislative body by any amount.)
3. The township legislative body may not reduce the salary of the township executive without the consent of the township executive during the term of office of the township executive.

Also, a person filling a vacancy of the township executive shall receive at least the same salary as the previous township executive received for the remainder of the unexpired term of the office of the township executive, unless the person consents to a reduction.

To summarize, for townships, the salary of the township elected official may not be changed in the year for which it is fixed, but certain situations may allow a reduction in salary between years or terms of office.

#### Audit Positions and Examples

##### **Longevity Pay**

Cities and towns encounter issues with longevity pay because an official’s salary may not be “reduced below the amount fixed for the previous year.” A frequent example is a long-term clerk treasurer retires and the new clerk treasurer’s salary is inflated by many years of longevity pay from the previous clerk treasurer. We have advised cities and towns to seek the advice of an attorney regarding the raising or lowering of a clerk treasurer’s salary based on longevity pay.

In previous years, we were of the audit position that longevity pay was included in compensation which could not ever be lowered. However, this position was reconsidered in 2015. It is now our audit position that longevity pay is not included in compensation because longevity is not related to the performance of duties, but related to the length of employment. Our position is based on the definition of compensation in IC 36-4-7-2 (cities) and IC 36-5-3-2 (towns), compensation is “the total of all money paid to an elected city or town official for performing duties as a [city or town] officer.”

The issue of longevity pay and the reduction of compensation is a pressing issue for cities and towns.

It is our audit position that counties may make an adjustment in longevity pay.

It is our audit position that townships may also make an adjustment in longevity pay as long as the official receives a salary that is not less than the salary fixed for the first year of the term immediately preceded the current term of office.

### **Professional Certifications and Educational Advancements**

Cities and towns encounter similar issues recognizing professional certifications and educational advancements of elected officers. The question is, *if an outgoing official has received increased compensation due to professional certifications, can the salary of a newly elected or appointed official without the same qualifications be reduced?*

We have advised cities and towns to seek the advice of an attorney regarding the raising or lowering of a clerk treasurer's compensation based on professional certifications or educational advancement.

Counties may make an adjustment to compensation during the budget process for the following year.

Townships may also make an adjustment to compensation during the budget process as long as the official receives a salary that is not less than the salary fixed for the first year in office that immediately preceded the current term of office.

### **Reduction in Responsibility**

Clerk Treasurer – Office Manager. In *Hisenkamp, Town of Seelyville Clerk Treasurer v. Seelyville Town Council, et. al.* Memorandum Decision only, 2014, the previous Clerk Treasurer held two positions with the town: Clerk Treasurer and Office Manager. The salary ordinance designated salaries for both positions. The new clerk treasurer, Hisenkamp, only held the position of clerk treasurer, but claimed that she was entitled to the total compensation (totaling both salaries) received by the previous clerk treasurer. The Court concluded that she was only entitled to the salary for the clerk treasurer position and not the total amount of compensation received by the previous clerk treasurer.

Clerk Treasurer – Utility Billing. If mid-year the council removes the utility billing function from the clerk treasurer's responsibility, it is our audit position that a decrease in compensation for the clerk treasurer is not allowed. Our audit position is based on IC 36-5-3-2 and IC 36-4-7-2 which states that compensation may not be reduced below that of the previous year.

IC 36-4-7-4 and IC 36-5-3-2(d), respectively, do allow the payment of additional compensation to a city or town elected official for certain services which are performed for the city or town, are not governmental in nature, and are connected with the operation of a municipally owned utility.

The question is, *once this additional compensation has been paid, can it ever be reduced if the additional service is no longer performed?*

One side argues that the definition of compensation (the "total of all money paid to an elected city or town officer for performing duties as a town officer, regardless of the source of funds from which the money is paid") includes the additional compensation allowed; others argue that the additional compensation can be removed when the additional services are removed from the responsibility of the elected officer.

The application of IC 36-5-3-2(d) was discussed in *Kirsch, Town of Elberfeld Clerk Treasurer v. Eleberfeld Town Council, et. al.* Warrick County Circuit Court Findings of Fact and Conclusions of Law, Cause No. 87C01-1211-CC-001625. (Not precedent). In this case, the previous clerk treasurer performed duties

related to utility billing and collection as part of the office of clerk treasurer. The town council created a position of utility clerk and removed the utility function from the responsibilities of the clerk treasurer. Compensation for the utility function was identified in ordinance as "additional compensation." The new Clerk Treasurer claimed that her salary may not be reduced below the previous year and that she should receive the "additional compensation" designated for the utility function. The court held,

"the duties performed by the Clerk Treasurer of a town, its Fiscal Officer, that are related to the finances of the town and municipally owned utility, are governmental in nature. Therefore, compensation paid to a Clerk Treasurer of a town for the performances of such duties for utilities, including billing and collections, cannot be reduced pursuant to IC 36-5-3-2(c)."

### **Bonuses**

*Example – Audit Reports B48593 and B48594 – Town of Paoli.* In the Town of Paoli, the council approved a November bonus for the council members and the clerk treasurer for four consecutive years. In this situation, the council fixed the compensation of the council and clerk treasurer each year for the budget and then declared a bonus each November as an additional amount of compensation for the year. *For purposes of IC 36-5-3-2(c), does the bonus amount constitute the base amount of compensation from which the official's salary may not be reduced?*

It is our audit position that the base amount of compensation is the amount fixed in the salary ordinance, which does not include the bonus. However, it has been argued that since the bonus increased the amount of compensation paid in the previous year, the compensation amount was raised and cannot be reduced.

The SBOA has requested repayment of the bonus amount for each year.

### **Opt-Out Payments**

*Example.* The clerk treasurer given an opportunity to participate in the health insurance plan or to receive an opt-out payment. Initially the clerk treasurer chose the opt-out payment which was received for several years. In fact, the opt-out payment amount was calculated into her hourly rate of compensation so it could be spread throughout the year. When the clerk treasurer later chose to take part in the town's health insurance plan due to a qualifying event, her compensation was not lowered by the opt-out payment amount since it was calculated and fixed in her hourly rate. It is our audit position that the compensation of the clerk treasurer may not be reduced pursuant to statute.

### **Alternative Indiana Code Language.**

1. If the legislature desires to define compensation uniformly for all local units and exclude certain fringe benefits, the following language may be considered:

#### **NEW SECTION IC 36-1-2-\_\_\_\_\_**

**(a) As used in this section, "compensation" means the total of all money paid to, or on behalf of, an elected officer for performing duties as an elected officer, regardless of the source of funds from which the money is paid.**

**(b) The following shall not be included in the computation of compensation for purposes of determining an increase or decrease in the compensation of an elected officer pursuant to IC**

**36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10, the following items shall be excluded from the definition of compensation:**

- d. Payment of insurance premiums;**
- e. Payments in recognition of longevity, professional certifications, and educational advancements which are separately identified on a salary ordinance or resolution; and**
- f. Payments of stipend or per diem allowed by statute.**

*Additional Comments:*

*If this language were used, the township statute would need to be amended to refer to compensation rather than salary and wages.*

*This language would clarify the issue with health insurance premiums, longevity pay, professional certifications, educational advancements, stipends, and per diem, but may not address any other types of recognition or benefits which may be offered, for example tuition reimbursement.*

*Mid-year increases for changes in responsibilities, bonuses, HSA Employer Contributions, Opt-Out Payments, etc. would still be an audit exception.*

2. If the legislature desires to define compensation uniformly for all local units and include fringe benefits, the following language may be considered:

**NEW SECTION IC 36-1-2-\_\_\_\_\_** “Compensation” means the total of all money paid to an elected officer for performing duties as an elected officer, regardless of the source of funds from which the money is paid. The term includes all employee benefits paid to an elected public officer, including life insurance, health insurance, disability insurance, retirement benefits, pension benefits, and any other benefit identified in the salary ordinance or resolution.”

## **Increased Compensation**

**Facts.** Local officials commonly ask the State Board of Accounts whether compensation may be increased in the year for which it is fixed for increased responsibility, job performance, or individual accomplishments.

**Applicable Statutes.** IC 36-4-7-2, IC 36-5-3-2, IC 36-2-5-13, and IC 36-6-6-10

**Concerns.** Local officials incur audit charges and findings related to this issue. Update and clarification in statute of issues found in recent audits regarding increases in compensation would provide a consistent framework for local officials and the State Board of Accounts to potentially curtail the number of findings subject to P.L. 176-2017.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### **Background Information**

As previously stated, Indiana statutes state that the compensation of an elected official may not be changed in the year for which it is fixed, with limited exceptions. The statutes do not address a mid-year change for changes in the job responsibility, job performance, or individual accomplishments of elected officials. However, units have recognized increased responsibility as justification for an increase in compensation of an elected officer during the budget year; other mid-year increases involve bonuses, stipends, and the performance of extra services.

Unit Type	Change in Compensation During Year Fixed Permitted
Cities	No
Towns	No
Counties	Limited
Townships	No

### **Audit Positions and Examples**

#### **Increased Responsibility**

The accounting for utility funds is the responsibility of the clerk treasurer. Each city and town is different as to whether the billing function is performed by a clerk treasurer or a billing clerk or office. If mid-year the council adds the utility billing function to the Clerk Treasurer's responsibility, it is our audit position that an increase in compensation for the clerk treasurer is not effective until the following budget year.

Our audit position is based on IC 36-5-3-2 and IC 36-4-7-2 which state that compensation may not be changed in the year for which it is fixed. It must be noted that IC 36-4-7-4 and IC 36-5-3-2(d), respectively, do allow the payment of additional compensation to a city or town elected official for certain services which are performed for the city or town, are not governmental in nature, and are connected with the operation of a municipally owned utility. However, this amount of additional

compensation must be fixed in the salary ordinance since it meets the definition of “compensation” in IC 36-5-3-2 and IC 36-4-7-2.

The application of IC 36-5-3-2(d) was discussed in *Kirsch, Town of Elberfeld Clerk Treasurer v. Elberfeld Town Council, et. al.* Warrick County Circuit Court Findings of Fact and Conclusions of Law, Cause No. 87C01-1211-CC-001625. (Not precedent).

The court held, “the duties performed by the Clerk Treasurer of a town, its Fiscal Officer, that are related to the finances of the town and municipally owned utility, are governmental in nature...”

*Example. Audit Reports B48593 and B48594 – Town of Paoli.* In the Town of Paoli, the council approved an increase in compensation for a clerk treasurer who assumed additional utility functions; the increase was given mid-budget year and was above the amount fixed in the salary ordinance. The SBOA requested repayment of the increase in compensation for that year based on IC 36-5-3-2(c) and guidance from the holding in *Kirsch v. Elberfeld*. We did not take audit exception to the increase approved in the salary ordinance for the subsequent year.

#### **Part-time v. Full Time Responsibilities**

*Example – Audit Report B47172 – Town of Cynthiana.* In Audit Report B47172 on the Town of Cynthiana, SBOA charged the clerk treasurer for an increase in salary during the year for which it was fixed (2014) in the amount of \$15,216.72. According to the official response in the report, the clerk treasurer went from being available “part time” to “full time” and the council determined to compensate her for the increase in availability.

#### **Bonuses**

It is the SBOA audit position that elected officials may not receive a bonus at year end as such a bonus would increase the compensation of the elected official during the year for which it was fixed.

*Example – Audit Reports B48593 and B48594 – Town of Paoli.* In the Town of Paoli, the council approved a November bonus for the council members and the clerk treasurer for four consecutive years. In this situation, the council fixed the compensation of the council and clerk treasurer each year for the budget and then declared a bonus each November as an additional amount of compensation for the year. The SBOA requested repayment of the bonus amount for each year.

*Example.* Officials decided mid-year to increase the compensation of all elected officials by increasing employer HSA contributions. It is our audit position that the mid-year increase in HSA contributions must be repaid.

#### **Payment for Certifications or Educational Advancements**

In general, it is our audit position that any increase in compensation for receiving a certification or degree must wait until the next budget year so as to not increase compensation in the year for which it is fixed.

#### **SPECIFIC STATUTORY EXCEPTIONS:**

IC 36-2-5-3.5 requires the county fiscal body to establish a salary schedule that pays a county or township assessor who has achieved a level 3 certification \$1,500 more than an assessor who has a level 2 certification. The statute also states that if the level 3

certification is attained no later than January 1 of the third year of the official's term in office, the increase in salary is effective when the level 3 certification is achieved.

IC 36-2-12-15 for the compensation of the county surveyor provides that a registered surveyor should be paid one and a half times the compensation fixed for a surveyor who is not registered. The statute does not specifically address the situation when a surveyor would become registered during the year. We have not taken audit exception to the increase during the year of a surveyor who became registered during the year.

#### **Stipends and Per Diem**

From an audit standpoint, we have not taken exception to a fluctuation in the amount paid through stipends if the stipend amount and the events for which a stipend may be paid are allowed by statute or are clearly stated in the salary ordinance.

**Possible Resolution.** The State Board of Accounts brings this information to the audit committee for consideration as to whether a statutory change is warranted regarding the ability to increase the compensation of an elected officer in the year for which it is fixed. Absent a statutory change, the State Board of Accounts will continue to comment on or charge an increase in the compensation of an elected official which occurs during the year for which it is fixed.

## **Sheriff Compensation**

**Facts.** A mid-year increase in the compensation of county sheriffs based on IC 36-2-13-2.8 conflicts with the provisions of IC 36-2-5-13(a) which states that compensation of an elected official may not be changed in the year for which it is fixed.

**Applicable Statutes.** IC 36-2-13-2.8 and IC 36-2-5-13

**Concerns.** The county sheriff compensation is out of compliance with one of the statutes when an increase given. Although the State Board of Accounts has not taken audit exception, some counties incur additional legal costs to obtain an opinion on the matter.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### **Background Information**

The following sections of the Indiana Code govern the compensation paid to county sheriffs:

IC 36-2-5-3(a) “The county fiscal body shall fix the compensation of officers, deputies, and other employees whose compensation is payable from the county general fund, county highway fund, county health fund, county park and recreation fund, aviation fund, or any other fund from which the county auditor issues warrants for compensation. This includes the power to:

- (1) fix the number of officers, deputies, and other employees;
- (2) describe and classify positions and services;
- (3) adopt schedules of compensation; and
- (4) hire or contract with persons to assist in the development of schedules of compensation.”

IC 36-2-5-13(a) “...the compensation of an elected county officer may not be changed in the year for which it is fixed...”

IC 36-2-5-14(a) “This chapter does not affect the salaries of judges, officers of courts, prosecuting attorneys, and deputy prosecuting attorneys whose minimum salaries are fixed by statute, but the county fiscal body may make appropriations to pay them more than the minimums fixed by statute...” [Note: A county sheriff is not included in the definition of “officer of the court,” IC 33-43-1-1]

IC 36-2-13-2.5(a) “The sheriff, the executive, and the fiscal body may enter into a salary contract for the sheriff.”

IC 36-2-13-2.8(a) “In place of any other form of compensation, including a salary contract entered into under section 2.5 of this chapter, a county may pay a sheriff's compensation as provided in this section from the county general fund in the manner that salaries of other county officials are paid...”

IC 36-2-13-2.8(c) “...a county that pays a sheriff's compensation under this section shall pay the sheriff as follows:

- (1) In a county having a population of not more than twenty thousand (20,000), the county must pay the sheriff an annual salary that is equal to at least fifty percent (50%)

of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

(2) In a county having a population of: (A) more than twenty thousand (20,000); and (B) not more than forty thousand (40,000); the county must pay the sheriff an annual salary that is equal to at least sixty percent (60%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

(3) In a county having a population of: (A) more than forty thousand (40,000); and (B) not more than sixty-five thousand five hundred (65,500); the county must pay the sheriff an annual salary that is equal to at least seventy percent (70%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

(4) In a county having a population of: (A) more than sixty-five thousand five hundred (65,500); and (B) not more than one hundred thousand (100,000); the county must pay the sheriff an annual salary that is equal to at least eighty percent (80%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

(5) In a county having a population of: (A) more than one hundred thousand (100,000); and (B) not more than two hundred thousand (200,000); the county must pay the sheriff an annual salary that is equal to at least ninety percent (90%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

(6) In a county having a population of more than two hundred thousand (200,000), the county must pay the sheriff an annual salary that is equal to at least one hundred percent (100%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.”

IC 33-38-5-8.1(a) “Except as otherwise provided in this section, the part of the total salary of an official: (1) paid by the state; and (2) set under section 6 or 8 of this chapter; is increased in each state fiscal year in which the general assembly does not amend the section of law under which the salary is determined to provide a salary increase for the state fiscal year.”

The Indiana Court of Appeals addressed this issue in *Cohen v. Ohio County, Indiana, et al.*, 890 N.E. 2d 1, 9-10 (Ind. App., 2008). The court stated,

“Although Cohen points out that chapter 36-2-13 deals specifically with sheriffs, while [section 36-2-5-3](#) deals with county officers and employees in general,<sup>4</sup> nothing in chapter 36-2-13 indicates that the legislature intended to limit the methods by which counties could pay their sheriffs to those identified in [sections 36-2-13-2.5](#) or [2.8](#). Further, we note that [Indiana Code section 36-2-5-14](#) indicates that chapter 5 “does not affect the salaries of judges, officers of courts, prosecuting attorneys, and deputy prosecuting attorneys whose minimum salaries are fixed by statute . . . .” As demonstrated by this section, the legislature identified specific public officers who were not affected by chapter 36-2-5, but did not identify sheriffs, thereby providing further support that a county may elect to pay its sheriff under [section 36-2-5-3](#).”

#### Audit Positions and Examples

### **Mid-year Increase in Salary**

Based on *Cohen*, it is our understanding that IC 36-2-5-3 and IC 36-2-5-13 apply to the compensation of county sheriffs, since county sheriffs were not specifically excluded in IC 36-2-5-14(a). As a result, the compensation of a county sheriff should not be changed in the year for which it is fixed. However, it is common for the compensation of county sheriffs to be adjusted mid-year at the same time as county prosecutors due to the language in IC 36-2-13-2.8. We have not taken audit exception to a mid-year increase in county sheriff compensation pursuant to IC 36-2-13-2.8.

*Example – Bartholomew County Sheriff.* Effective July 1, 2017, the trial judges were given a salary increase of two percent in a letter from Chief Justice Rush. In Bartholomew County, the minimum salary of a sheriff in a county having a population of between 65,000 and 100,000 is equal to at least eighty percent (80%) of the annual minimum salary that would be paid by the state to a full-time prosecuting attorney in the county.

In Bartholomew County, the prosecuting attorney is paid the same amount as the Circuit Court Judge. In order to comply with IC 36-2-13-2.8, officials increased the compensation of the Bartholomew County Sheriff. This increase contradicts the provisions in IC 36-2-5-3 which states that compensation may not be increased in the year for which it is fixed. Due to this discrepancy, Bartholomew County engaged an attorney to provide an opinion on this matter.

### **Alternative Indiana Code Language.**

1. If the legislature desires for the compensation of county sheriffs to be adjusted during the budget year, the following change may be considered:

IC 36-2-5-14(a) “This chapter does not affect the salaries of judges, officers of courts, prosecuting attorneys, and deputy prosecuting attorneys, **and county sheriffs** whose minimum salaries are fixed by statute, but the county fiscal body may make appropriations to pay them more than the minimums fixed by statute...”

2. If the legislature desires to prohibit the compensation of county sheriffs from being adjusted mid-year, then the following addition could be made to IC 36-2-13-2.8:

**The percentages described in this section refer to the percentages in effect at the time the compensation is fixed for all county elected officials.**

## **Board Member Compensation**

**Facts.** In some governmental units, local officials compensate members of the same executive or legislative board differently for performing different functions.

**Applicable Statutes. IC 36-4, IC 36-5, IC 36-2, and IC 36-6**

**Concern.** Individual board members are compensated differently but have the same responsibility as board members.

Specific concerns are addressed in the background information, audit positions, and examples which follow.

### Background Information

Executive and legislative boards function as a whole to accomplish the purposes of the local government. For some boards, statutes create positions on the board, such as president, chairman, or secretary.

Board Type	President	Chairman	Secretary
City Common Council	Yes	No	No
Town Council	Yes	No	No
County Commissioners	No	No	No
County Council	Yes	No	No
Township Board	No	Yes	Yes

The additional duties to be performed by these offices vary, as found in the statutes that follow.

### Cities

IC 36-4-6-8 "(a) This subsection applies only to second class cities. At its first regular meeting under section 7 of this chapter, and each succeeding January, the legislative body shall choose from its members a president and a vice president.

(b) This subsection applies only to third class cities. The city executive shall preside at all meetings of the legislative body, but may vote only in order to break a tie. At its first regular meeting under section 7 of this chapter and each succeeding January, the legislative body shall choose from its members a president pro tempore to preside whenever the executive is absent."

IC 36-4-6-18 "The legislative body may pass ordinances, orders, resolutions, and motions for the government of the city, the control of the city's property and finances, and the appropriation of money."

### Towns

IC 36-5-2-2 "The town council elected under IC 3-10-6 or IC 3-10-7 is the town legislative body. The president of the town council selected under section 7 of this chapter is the town executive."

IC 36-5-2-10 "An ordinance, order, or resolution passed by the legislative body is considered adopted when it is signed by the executive."

IC 36-5-2-10.2 "Within a reasonable time after an ordinance of the legislative body is adopted, the clerk-treasurer shall record it in a book kept for that purpose. The record must include: (1) the signature of the executive; (2) the attestation of the clerk-treasurer; and (3) the date of each recorded item. The record or a certified copy of it constitutes presumptive evidence of the adoption of the ordinance"

IC 36-5-2-13 "The town executive must have the approval of a majority of the town council before the executive may discharge, reduce in grade under IC 36-8-3-4, or remove a town employee"

IC 36-5-3-3 "... each town shall formulate a budget estimate for the ensuing budget year in the following manner... (3) The town executive shall meet with the department heads and the fiscal officer to review and revise their various estimates..."

IC 36-5-4-11 "The town executive may revoke or suspend any license issued by the town if the person holding the license has violated the terms or conditions of the license or of the law under which it was issued."

#### Counties

IC 36-2-2-2 "The three (3) member board of commissioners of a county elected under this chapter is the county executive. In the name of "The Board of Commissioners of the County of \_\_\_\_\_" the executive shall transact the business of the county."

IC 36-2-6-8 "(a) The county executive or a court may not make an allowance to a county officer for:

- (1) services rendered in a criminal action;
- (2) services rendered in a civil action; or
- (3) extra services rendered in the county officer's capacity as a county officer.

(b) The county executive may make an allowance to the clerk of the circuit court, county auditor, county treasurer, county sheriff, township assessor (if any), or county assessor, or to any of those officers' employees, only if:

- (1) the allowance is specifically required by law; or
- (2) the county executive finds, on the record, that the allowance is necessary in the public interest.

(c) A member of the county executive who recklessly violates subsection (b) commits a Class C misdemeanor and forfeits the member's office."

IC 36-2-3-6 "(a) At its regular meeting required by section 7(b)(1) of this chapter, the fiscal body shall elect a president and president pro tempore from its members"

IC 36-2-3-7 "(c) A special meeting of the fiscal body may be called: (1) by the county auditor or the president of the fiscal body..."

#### Townships

IC 36-6-6-7(a) "The legislative body shall meet at the office of the executive on the first Tuesday after the first Monday in January of each year. At this meeting the legislative body shall elect one (1) member as chair for that year and one (1) member as secretary for that year."

IC 36-6-6-8 "...The secretary of the legislative body shall, under the direction of the legislative body, record the minutes of the proceedings of each meeting in full and shall provide copies of the minutes to each member of the legislative body before the next meeting is convened. After the minutes are approved by the legislative body, the secretary of the legislative body shall place the minutes in the permanent record book. The chair of the legislative body shall retain the record in the chair's custody."

### Summary of Statutes

In summary, executive and legislative boards act as a whole to transact the business of the unit. In some cases, certain positions on the board are given additional responsibilities. For example, a town council president acts as the executive for the town and performs additional responsibilities; the township board elects a secretary to record and file the minutes. However, major statutory responsibilities are not specified for the president of a city common council, the president of the county commissioners, or the president of the county council.

### Audit Positions and Examples

#### **Audit Position - Counties**

Based on IC 36-2-2-2, it is our audit position that each individual commissioner has the same duty and responsibility to oversee and transact the business of the county; also under IC 36-2-2-10, each commissioner is required to oversee the executive's office, as well as carry out the other responsibilities of IC 36-2-2.

*County Bulletin Article from April 2017.* Our audit position with regard to compensation and extra services provided by county commissioners is stated in the County Bulletin and Uniform Compliance Guidelines Volume 403, Page 3, as follows:

"It has recently come to our attention that some Counties may be paying county commissioners different salaries based on differing duties performed by the commissioners. Based on IC 36-2-6-8 (below), it is our position that all county commissioners of a particular county should receive the same compensation. There should not be additional compensation for "extra duties" that are within the capacity of the commissioners. Each commissioner has the same or equal responsibilities as a commissioner to perform those duties regardless of how the commissioners may decide to divide those duties. For example, the commissioners may determine that a commissioner is needed in the office on a daily basis. There is only one commissioner who is able to perform this duty which is clearly within the capacity of the commissioners' responsibilities. This commissioner would not be entitled to more compensation.

IC 36-2-6-8 Prohibited allowances; allowances to certain officers; violation; offense

(a) The county executive or a court may not make an allowance to a county officer for:

- (1) services rendered in a criminal action;
- (2) services rendered in a civil action; or
- (3) extra services rendered in the county officer's capacity as a county officer.

(b) The county executive may make an allowance to the clerk of the circuit court, county auditor, county treasurer, county sheriff, township assessor (if any), or county assessor, or to any of those officers' employees, only if:

- (1) the allowance is specifically required by law; or
- (2) the county executive finds, on the record, that the allowance is necessary in the public interest.

(c) A member of the county executive who recklessly violates subsection (b) commits a Class C misdemeanor and forfeits the member's office."

[Note: The State Board of Accounts is aware that stipends may be specifically allowed in statute for serving on certain board, such as in IC 36-7-4-222.5 and has not taken audit exception to such payments if made in accordance with statute.]

*Example.* In Morgan County, the three commissioners agreed to individually assume certain responsibilities related to highway, the office, serving on boards, etc. Each commissioner was paid differently based on the duties assumed.

Based on our audit position, the three commissioners agreed upon an amount of pay which was equal for all members. The Indiana Association of County Commissioners has asked our office to reconsider our audit position that all commissioners serving on the same board should receive the same amount of compensation. In addition, the Indiana Association of County Commissioners commented that it is common for a county commissioner president to be compensated differently than the other commissioners.

**Possible Resolution.** The legislature may wish to consider language clarifying whether members holding the position of president, chairman, or secretary should receive additional compensation for holding that office. If the legislature desires the individuals to receive additional compensation for these positions, additional consideration should also be given to whether compensation may be ever be reduced due to a change in circumstance or if any adjustments may ever be made mid-year depending on changes in responsibility.

## ACCOUNTABILITY AND TRANSPARENCY OF ECONOMIC DEVELOPMENT FUNDS

### **Fee-For-Service and Economic Development Corporations**

**Facts.** Indiana Code 6-3.6-10-2(7) allows local units to use revenue allocated for economic development purposes for “contract payments to a nonprofit corporation whose primary purpose is to assist government in planning and implementing economic development projects.” Indiana Code 6-3.6-2-8 defines an economic development project to include, “Administrative expenses associated with a project described in this section, including contract payments to a nonprofit corporation whose primary corporate purpose is to assist government in planning and implementing economic development projects.” Under the authority of this statute, local units commonly enter into a contract with a nonprofit economic development corporation (EDC) to accomplish their economic development goals.

If a contract is set up as a fee-for-service arrangement, the contract is treated as a vendor contract for professional services, and no audit of the EDC is required. Typically the contract requires a set payment for services to promote economic development. In 2016, at least \$51 million was disbursed for this purpose through fee-for-service arrangements.

If the contract is set up as a grant to the EDC, then the EDC may be subject to audit by the State Board of Accounts pursuant to IC 5-11-1-9.

This information is provided to the audit committee for its consideration on whether the fee-for-service arrangement meets the accountability and transparency goals of the Indiana legislature in regard to funds spent for economic development purposes.

### **Background.**

IC 5-22-6-1 “The purchasing agency of a governmental body may purchase services using any procedure the governmental body or the purchasing agency of the governmental body considers appropriate.”

IC 5-11-1-9 “(a) The state examiner, personally or through the deputy examiners, field examiners, or private examiners, shall examine all accounts and all financial affairs of every public office and officer, state office, state institution, and entity.

(b) An examination of an entity deriving:

- (1) less than fifty percent (50%); or
- (2) subject to subsection (h), at least fifty percent (50%) but less than two hundred thousand dollars (\$200,000) if the entity is organized as a not-for-profit corporation;

of its disbursements during the period subject to an examination from appropriations, public funds, taxes, and other sources of public expense shall be limited to matters relevant to the use of the public money received by the entity.”

IC 5-11-1-16(e) “As used in this article, “entity” means any provider of goods, services, or other benefits that is:

- (1) maintained in whole or in part at public expense; or
- (2) supported in whole or in part by appropriations or public funds or by taxation.

The term does not include the state or a municipality (as defined in this section).”

The language of Indiana Code 5-11-1-9, and the designation of an organization as an “entity” has been the subject of three primary court cases, which are summarized below. The case involving the *Perry County Economic Development Corporation* involves a contract which is very similar to the types of contracts currently in use by local governmental units and nonprofit economic development corporations.

*State Board of Accounts v. Indiana University Foundation*, (App. Dist. 1 1995) 647 N.E. 2d 342. The court determined that the agreements between Indiana University and the Indiana University Foundation were fee-for-services contracts and that the Foundation was not an “entity” under IC 5-11-1. Some factors considered by the court in making this determination were as follows:

- The contract were replete with references to “fees.”
- Tax returns described the contracts as “service fees.”
- The contract provided that fees were to be negotiated on an annual basis.
- Fees were based upon services actually performed.
- A private entity is not maintained at public expense or supported by public funds merely because public monies make up a certain percentage of its revenue.

*Indiana Convention and Visitors Association, Inc. v. Indianapolis Newspaper, Inc.* (Ind. 1991) 577 N.E. 2d 208. The court concluded that the agreement between Indiana Convention and Visitors Association (ICVA) and the Capital Improvement Board of Marion County (CIB) was not a fee-for-services arrangement and that the ICVA was subject to audit by the State Board of Accounts and subject to the Public Records Act by virtue of its status of an “entity” under IC 5-11-1-9. Some of the factors considered in the court’s determination were as follows:

- The amount of money paid by CIB to ICVA was not negotiated, but instead tied to tax collections.
- The amount paid was not dependent on an objective measure of performance.
- The contract stated that CIB “financially supported” ICVA.
- The ICVA tax return described the funds as “indirect public support.”
- None of the documents described the payments as fees.
- ICVA’s performance (or lack thereof) did not directly affect the amount it received.
- Itemized claims were not submitted.
- A private entity is not maintained at public expense or supported by public funds merely because public monies make up a certain percentage of its revenue.

*Perry County Economic Development Corporation v. Kempf*, (App. 1999) 712 N.E. 2d 1020. The PCDC was organized as a not-for-profit Indiana corporation to promote commercial, industrial, and civic development in Perry County. In determining whether the agreements between the local units of government and the PCDC were fee-for-services agreements or public support, the court considered the following items, among others:

- The compensation was designated as compensation for professional services rendered.
- The amount paid did not fluctuate with tax revenues collected.
- Although no specific quantity of service was to be performed, PCDC worked full time to perform services it agreed to perform in the contract.

- The compensation was negotiated annually.
- The compensation was referred to as “fees” in the contract.
- The governmental clients were billed for the amount of services received.

The court determined that the contracts between PCDC and the local governmental units were fee-for-services arrangements and that the PCDC was not an “entity” for purposes of IC 5-11-1.